

City of Farmers Branch, Texas

Comprehensive

Annual Financial

Report



For the Year Ended September 30, 2007

City of Farmers Branch, Texas
Comprehensive Annual Financial Report

For the Year Ended September 30, 2007

City Council:

Bob Phelps
Tim O'Hare
Ben Robinson
Tim Scott
Jim Smith
David Koch

Mayor
Mayor Pro Tem, Place 2
Deputy Mayor Pro Tem, Place 5
Place 1
Place 3
Place 4

City Manager

Gary D. Greer

Prepared by

Finance Department
Charles S. Cox, Director

CITY OF FARMERS BRANCH, TEXAS

Comprehensive Annual Financial Report
For the Year Ended September 30, 2007

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(concluded)

*INTRODUCTORY
SECTION*



City of Farmers Branch
13000 William Dodson Parkway
Farmers Branch, Texas 75234

January 25, 2008

Honorable Mayor and City Council
City of Farmers Branch
Farmers Branch, Texas

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Farmers Branch, Texas for the year ended September 30, 2007. The purpose of the report is to provide the Council, management, staff, the public and other interested parties with detailed information reflecting the City's financial condition.

THE REPORT

The Texas Local Government code (§103.001) requires annual audits of municipalities and the City Charter (Sec. 2-18) requires an annual audit of the books of account, financial records, and other evidence of transactions by a certified public accountant within 120 days of the end of the fiscal year. These requirements have been fulfilled and the independent auditors' report is included with this report for the fiscal year ended September 30, 2007.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Grant Thornton L.L.P. has issued an unqualified opinion on the City of Farmers Branch's financial statements for the year ended September 30, 2007. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

The City of Farmers Branch (City) covers approximately 12.5 square miles and is conveniently located on Dallas' northern border. It lies in the heart of an 11-county area that has emerged as a premier commercial, financial, and trading center. Two major interstate highways and the Dallas North Tollway border the City. The Dallas/Fort Worth International Airport and the Dallas Love

Field Airport are only minutes from Farmers Branch. These factors all contribute to the favorable business climate existing within the City.

The City of Farmers Branch was incorporated in 1946 under the general laws of the State of Texas. The City operates under a Council-Manager form of government. Policy-making and legislative authority are vested in a governing council (Council) consisting of the Mayor and five other at-large members, all elected on a non-partisan basis. The term of office is three years, with the terms of the Mayor and three of the Councilmembers expiring in even-numbered years and the terms of the other two Councilmembers expiring in odd-numbered years. The City Manager is the chief administrative officer for the City.

Although the residential population has been recently estimated at 28,500, Farmers Branch serves a daytime population of approximately 90,000. The City provides a full range of municipal services including police, fire, emergency ambulance, sanitation, library, construction and maintenance of streets and municipal utilities, parks and recreation, water and sewer, planning and zoning, economic development, and general administrative functions. The City of Farmers Branch also is financially accountable for the Farmers Branch Housing Finance Corporation and the Farmers Branch Industrial Development Corporation, which are included as discretely presented component units and the North Dallas County Water Supply Corporation, which is included as a joint venture. Additional information on these three entities can be found in the notes to the financial statements (See Note 1.A).

The Council enacts the budget through passage of an ordinance prior to the start of each fiscal year. This budget serves as the foundation for the City of Farmers Branch's financial planning and control. Annual budgets are prepared for all governmental funds including the general fund, debt service fund, and special revenue funds. Capital projects funds are budgeted over the life of the project. The City Manager is authorized to transfer resources within each division's summary budget category. Council approval is necessary for all other transfers (See Note 2.A).

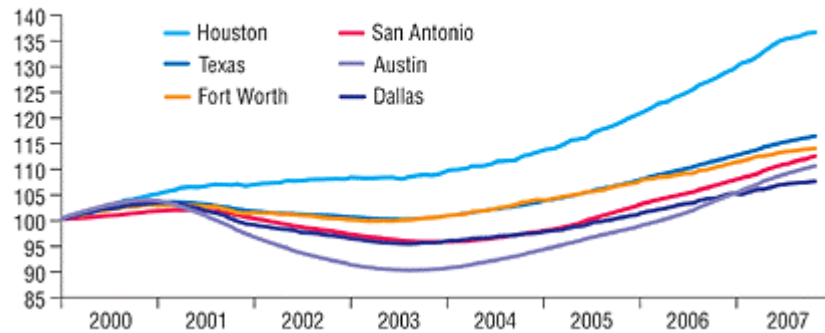
LOCAL ECONOMY

The City's broadly diversified economic base supports home furnishings, financial, high-tech, insurance, and telecommunications industries, and includes many of the nation's foremost businesses. Farmers Branch is the location of choice for 65 corporate headquarters, 24 Fortune 500 corporations, and approximately 2,500 small and mid-size firms. Approximately seventy-six percent (76%) of the City's tax base comes from the business community. The occupancy rate for office space and retail/industrial/warehouse space is 75 and 85 percent respectively. These occupancy rates are consistent with the average rates in the north Dallas area.

According to the Federal Reserve Bank of Dallas' December 2007 economic report, The Dallas economy picked up slightly in October. Its [business-cycle index](#) rose 1.7 percent after increasing 1.2 percent in September. Employers added 1,900 jobs, an annualized pace of 1.1 percent. A decline in manufacturing employment—mostly a result of reduced homebuilding nationwide—was offset by solid gains in the service sector. In total, the service sector increased by 3,000 jobs. Educational and health services, boosted by continued hospital expansions, added 1,200 jobs. The telecommunications industry experienced the fastest growth, and employment in the sector is 9.5 percent above year-ago levels.

Business-Cycle Indexes: Texas and Major Metros

Index, January 2000 = 100



General fund revenues continued to show improvement in fiscal year 2007. Total revenues of \$40.7 million represented an increase of 2.9% over the prior year. Reflecting the region's general recovery, sales tax receipts increased 9.1% and property tax revenues increased 6.2%.

The fiscal year 2008 budget was developed projecting continued revenue growth at a moderate pace. General fund revenues have been budgeted at \$3.1 million more than the fiscal year 2007 amended budget. The proposed budget maintains the property tax rate of 49.45 cents. Property tax revenues are projected to increase 9.6%. Sales tax revenues are anticipated to increase by 2.7%. Water consumption decreased 28% during fiscal year 2007 due to prevailing wetter, cooler conditions. The fiscal year 2008 water sales budget assumes a 6.7% increase due to a return to average annual sales.

LONG-TERM FINANCIAL PLANNING

Users of this document as well as others interested in the programs and services offered by the City of Farmers Branch are encouraged to read the City's 2007-2008 Fiscal Year Budget. The document details the City's long-term goals and financial policies, describes program accomplishments and initiatives, and outlines the City's capital improvement program. The City's Budget also includes long-term financial plans for the general fund that forecasts revenues and expenditures over a five-year horizon. The document can be obtained from the City of Farmers Branch's finance department by calling (972) 247-3131. The Budget can also be accessed through the City's web site at www.farmersbranch.info and selecting the Finance department using the web site's "department quicklink."

The Public Improvement District (PID) program, without which development on the east side could not have occurred, provided tax abatement incentives for development. Development initiated in this district will add \$1.4 million in property tax revenues once the ten-year incentives begin to expire. These incentives began to expire in fiscal year 2004 at which time \$400,000 was added to property tax revenues. This amount will continue to increase until fiscal year 2009 when \$1.4 million dollars in tax revenue will be added. Similar long-term improvements to the City's tax base should come from the Tax Increment Finance (TIF) district formed in the light rail station area and on the City's west side.

A short-term 5-year maturity debt issuance in October 2007 supplemented the existing pay-as-you-go capital funding plan. Projects to be constructed with this funding include improvements

to Webb Chapel, Midway Road, Benchmark Drive, and a new Animal Shelter. The new Fire Station No. 3 will be opened during the year as a pay-as-you-go project completely financed by fund balances saved from prior years.

RELEVANT FINANCIAL POLICIES

The City's fund balance/operating position concept continues to be an important factor in policy decisions. The concept notes that the City will maintain an undesignated, unreserved fund balance to be used for unanticipated emergencies of 20% of the operating budget of the general fund. A net current assets balance of \$2.0 million is targeted for the water and sewer (enterprise) fund. These monies will be used to avoid cash flow interruptions, generate interest income, reduce the need for short-term borrowing, and assist in maintaining an investment-grade rating.

The City of Farmers Branch invests funds prudently and has adopted an investment policy, which is reviewed annually by the City Council as prescribed by State law. Staff provides a quarterly report of investments for Council review. The City's investment practice is to buy securities and hold them to maturity to avoid potential losses from a sale. During fiscal year 2007, the City complied with all aspects of the investment policy.

MAJOR INITIATIVES

In 1998, the City established a Tax Increment Finance District for the City's west side. This District encompasses over 800 acres of unimproved land. The goal of this District is to spur development in the last major undeveloped area of the City. Since the District was created, taxable values within the District have increased by \$45.7 million. Property taxes associated with this increment are used to accelerate public infrastructure improvements within the District. All taxing entities participate in funding these improvements. The District will legally expire in 2018.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Farmers Branch for its comprehensive annual financial report for the fiscal year ended September 30, 2006. This was the eighteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

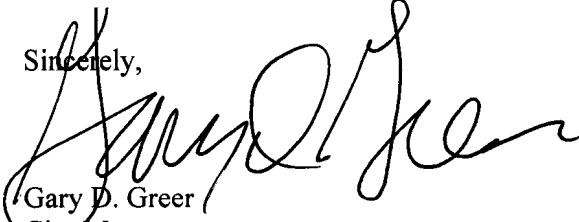
A Certificate of Achievement is valid for a period of one year only. The City believes its current CAFR continues to meet the Certificate of Achievement Program's requirements and is submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget for the fiscal year beginning October 1, 2006. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report on a timely basis was made possible by the dedicated service of the entire staff of the finance department and our independent auditors. We would also like to express sincere appreciation to all employees who contributed to its preparation.

In closing, without the leadership and support of the City Council, preparation of this report would not have been possible.

Sincerely,

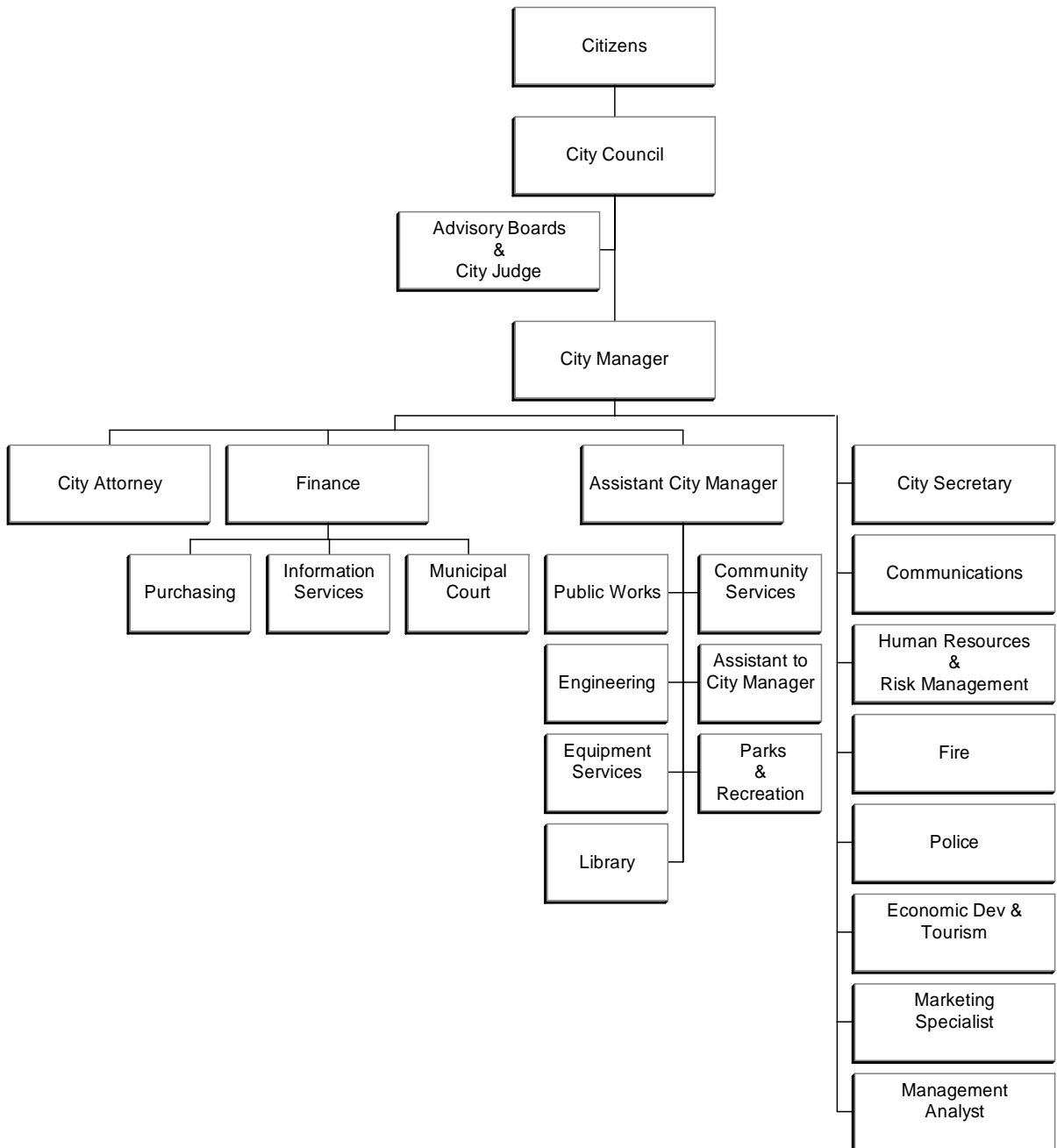


Gary D. Greer
City Manager



Charles S. Cox
Director of Finance

City of Farmers Branch



City of Farmers Branch, Texas
List of Principal Officials

City Council

Bob Phelps
Tim O'Hare
Ben Robinson
Tim Scott
Jim Smith
David Koch

Mayor
Mayor Pro Tem, Place 2
Deputy Mayor Pro Tem, Place 5
Place 1
Place 3
Place 4

Appointed Officials

Gary D. Greer
Greg Vick
Cindee Peters
Jerry Murawski
Tom Bryson
Michael Spicer
Norma Nichols
Kevin Muenchow
Charles S. Cox
Kyle D. King
Michael Perry
Danita Barber
Jeff Fuller
Kathy Shields
Sid Fuller
Mark Pavageaux

City Manager
Assistant City Manager
City Secretary
City Engineer
Communications Director
Community Services Director
Economic Development Director
Equipment Services Director
Finance Director
Fire Chief
Information Services Director
Library Director
Parks and Recreation Director
Human Resources Director
Police Chief
Public Works Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Farmers Branch
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Enen

Executive Director

*FINANCIAL
SECTION*

Report of Independent Certified Public Accountants

The Honorable Mayor, City Council and City Manager
The City of Farmers Branch, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Farmers Branch, Texas (the "City"), as of and for the year ended September 30, 2007, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Farmers Branch's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Farmers Branch, Texas, as of September 30, 2007, and the respective changes in financial position and respective cash flows, where applicable thereof, and the budgetary comparisons for the General Fund and the major special revenue fund - Landfill Closure/Post-Closure Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1-10 and the Required Supplemental Information - Texas Municipal Retirement System Analysis of Funding Progress on page 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the City of Farmers Branch's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements. This supplementary information is the responsibility of the City of Farmers Branch's management. The combining and individual nonmajor fund financial statements and individual nonmajor fund budget to actual schedules have been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

GRANT THORNTON LLP

Dallas, Texas
January 17, 2008

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CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis For the Fiscal Year Ended September 30, 2007 (Unaudited)

As management of the City of Farmers Branch (City), we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Farmers Branch exceeded its liabilities at the close of the fiscal year ended September 30, 2007 by \$180,150,144 (net assets). Of this amount, \$33,099,879 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies as more fully described below.
- The City's total net assets decreased by \$279,125. The net assets in the governmental activities increased \$1,028,684. The net assets in the business-type activities decreased \$1,307,809.
- At the close of the fiscal year ended September 30, 2007, the City's governmental funds reported combined ending fund balances of \$38,393,888. Approximately 72% of this total amount, \$27,564,099 is unreserved and available for use within the City's designation and policies. Designations for (1) construction \$7,207,765, (2) landfill closure \$7,812,147, (3) capital assets \$871,283, (4) special incentives \$784,232, and (5) special purposes \$2,291,148, total \$18,966,575 and represent almost 69% of the unreserved fund balance.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$10,288,498 or 24% of the total general fund expenditures. The unreserved and undesignated fund balance for the general fund was \$8,632,983 or 20% of the total general fund expenditures. This represents a \$4,903,735 decrease from the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

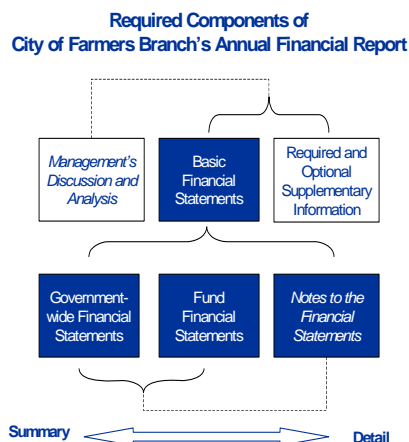
The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and culture and recreation. The business-type activities of the City include water and sewer.

The government-wide financial statements can be found in Exhibit A of this report.

Fund Financial Statements - A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories - governmental funds and proprietary funds.



CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2007
(Unaudited)

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City maintains 15 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, landfill closure/postclosure fund, non-bond capital projects fund, and TIF No. 1 District capital projects fund, which are considered to be major funds. Data from the other 11 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found in Exhibit B of this report.

Proprietary Funds - The City maintains two types of proprietary funds. The water and sewer fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the water and sewer fund to account for its water and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for its equipment services and workers' compensation funds. Because these services predominantly benefit governmental rather than business-type functions they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The water and sewer fund is considered a major fund of the City. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found in Exhibit C of this report.

Notes to Basic Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found in Exhibit D of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplemental information can be found in Exhibit E of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented following the required supplemental information on pensions. Combining and individual statements and schedules can be found in Exhibit F through Exhibit H of this report.

CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2007
(Unaudited)

Major Features of City of Farmers Branch's Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government	The activities of the City that are not proprietary, such as police, fire, and parks	Activities the City operates similar to private businesses: such as water/sewer utility
Required financial statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures, and changes in fund balances	*Statement of net assets *Statement of revenues, expenses, and changes in net assets *Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting And current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after The end of the year; expenditures when goods or services have been received And payment is due during The year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2007
(Unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Farmers Branch, assets exceeded liabilities by \$180,150,144 as of September 30, 2007.

The largest portion of the City's net assets (79.3%) reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets (2.3%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets (18.4%) may be used to meet the government's ongoing obligation to citizens and creditors.

The governmental activities current assets and other assets increased 3.5%. This was mainly due to the transfer of assessments receivable from the business-type activities since those amounts will be used for capital projects in the non-bond capital projects fund instead of the water and sewer fund. Total assets of the business-type activities decreased 5.6%. The business-type activities current and other assets decreased 25.8% due to the early payoff of Combination Assessment and Utility System Refunding Bonds Series 2002, due to construction of capital assets, and transfer of assessments receivable to the governmental activities. The business-type capital assets increased 6.5% due to construction and a transfer of capital assets from governmental activities. The early redemption of the refunding bonds is also the main reason the total liabilities for the business-type activities decreased.

CONDENSED NET ASSETS

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 46,738,340	\$ 45,150,269	\$ 18,123,585	\$ 24,425,210	\$ 64,861,925	\$ 69,575,479
Capital assets	124,301,412	124,343,649	43,532,421	40,887,512	167,833,833	165,231,161
Total assets	<u>171,039,752</u>	<u>169,493,918</u>	<u>61,656,006</u>	<u>65,312,722</u>	<u>232,695,758</u>	<u>234,806,640</u>
Noncurrent liabilities	43,854,987	44,543,118	335,200	3,070,680	44,190,187	47,613,798
Other liabilities	7,345,208	6,139,927	1,010,219	623,646	8,355,427	6,763,573
Total liabilities	<u>51,200,195</u>	<u>50,683,045</u>	<u>1,345,419</u>	<u>3,694,326</u>	<u>52,545,614</u>	<u>54,377,371</u>
Net assets:						
Invested in capital assets,						
net of related debt	99,708,332	98,657,412	43,151,947	44,402,198	142,860,279	143,059,610
Restricted	4,189,986	2,237,530		4,926,756	4,189,986	7,164,286
Unrestricted	15,941,239	17,915,931	17,158,640	12,289,442	33,099,879	30,205,373
Total net assets	<u>\$ 119,839,557</u>	<u>\$ 118,810,873</u>	<u>\$ 60,310,587</u>	<u>\$ 61,618,396</u>	<u>\$ 180,150,144</u>	<u>\$ 180,429,269</u>

CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2007
(Unaudited)

Analysis of the City's Operations – Governmental activities increased the City's net assets by \$1,028,684. Revenues increased \$311,063. The largest increases were in property taxes (\$1,121,171) due to higher appraised values and sales and use taxes (\$1,126,775) reflecting an improved economy. All other revenue categories increased except for electric franchise taxes, which decreased \$1,967,883 and capital grants and contributions, which decreased \$843,377. Expenses increased \$4,859,107. General government expenses increased \$3,703,938 due to an increase in expense from the capital improvement project funds, increased legal expenses, and a new special incentives program. Public safety expenses increased \$2,453,268 mainly due to pay structure modifications. Net transfers increased \$2,914,995 due to a transfer of the Public Improvement District No. 1 assessment balance and a reduction in the transfer of capital assets to the business-type activities as compared with fiscal year 2006.

Business-type activities decreased the City's net assets by \$1,307,809. The largest change was a decrease of \$3,243,932 in charges for services revenue due to cooler, wetter weather conditions. Net transfers decreased by \$2,914,995 as described above for the governmental activities.

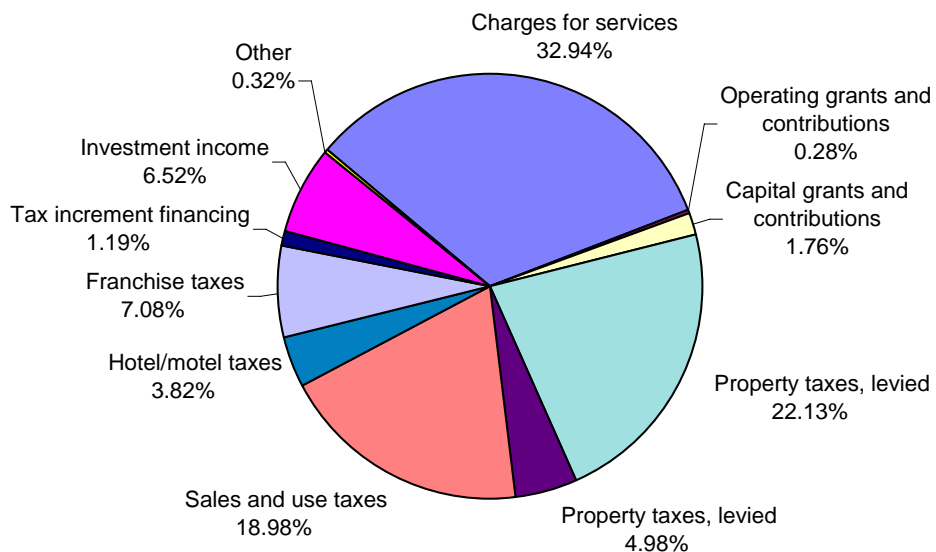
CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 9,339,170	\$ 9,231,719	\$ 12,116,611	\$ 15,360,543	\$ 21,455,781	\$ 24,592,262
Operating grants and contributions	182,355	140,829			182,355	140,829
Capital grants and contributions	1,044,978	1,888,355	98,906	109,804	1,143,884	1,998,159
General revenues:						
Taxes:						
Property taxes, levied for general purposes	14,413,089	13,315,728			14,413,089	13,315,728
Property taxes, levied for debt service	3,247,023	3,223,213			3,247,023	3,223,213
Sales and use taxes	12,367,492	11,240,717			12,367,492	11,240,717
Hotel/motel taxes	2,487,792	2,249,499			2,487,792	2,249,499
Franchise taxes	4,610,225	6,578,109			4,610,225	6,578,109
Tax increment financing	775,864	718,150			775,864	718,150
Investment income	3,487,671	3,225,628	760,195	537,508	4,247,866	3,763,136
Other	212,352	45,001			212,352	45,001
Total revenues	52,168,011	51,856,948	12,975,712	16,007,855	65,143,723	67,864,803
Expenses:						
General government	12,193,622	8,489,684			12,193,622	8,489,684
Public safety	18,387,710	15,934,442			18,387,710	15,934,442
Public works	10,370,758	11,940,111			10,370,758	11,940,111
Culture and recreation	11,560,372	11,292,821			11,560,372	11,292,821
Interest on long-term debt	1,386,599	1,353,926			1,386,599	1,353,926
Unallocated depreciation	137,656	166,626			137,656	166,626
Water and sewer			11,386,131	10,646,221	11,386,131	10,646,221
Public improvement district				216,572		216,572
Total expenses	54,036,717	49,177,610	11,386,131	10,862,793	65,422,848	60,040,403
Increase (decrease) in net assets before transfers	(1,868,706)	2,679,338	1,589,581	5,145,062	(279,125)	7,824,400
Transfers	2,897,390	(17,605)	(2,897,390)	17,605		
Increase (decrease) in net assets	1,028,684	2,661,733	(1,307,809)	5,162,667	(279,125)	7,824,400
Net assets--beginning	118,810,873	116,149,140	61,618,396	56,455,729	180,429,269	172,604,869
Net assets--ending	\$ 119,839,557	\$ 118,810,873	\$ 60,310,587	\$ 61,618,396	\$ 180,150,144	\$ 180,429,269

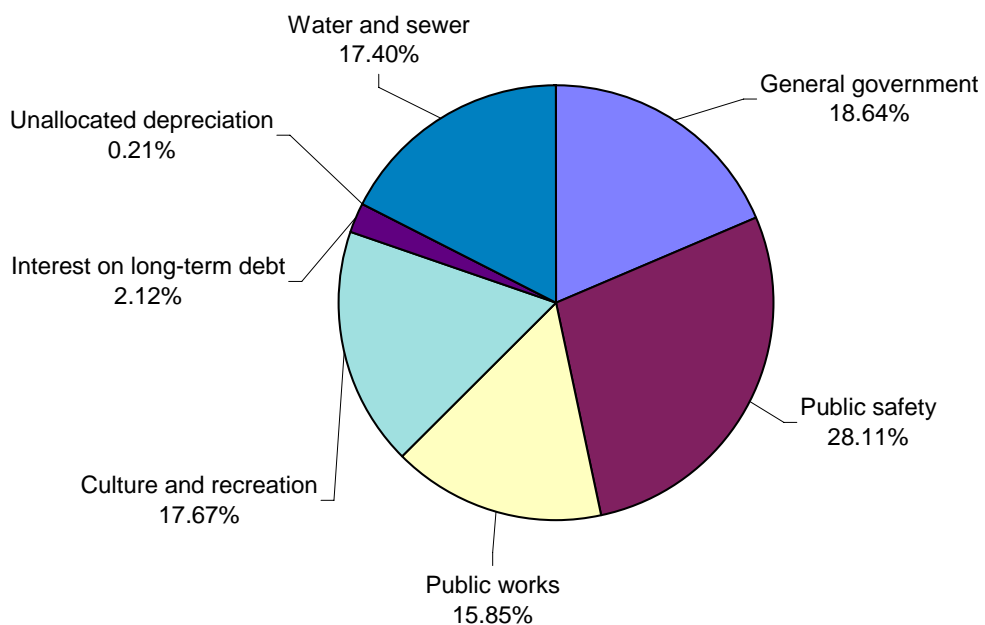
CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2007
(Unaudited)

Total Sources of Revenue



Total Expenses by Activity



CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2007
(Unaudited)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$38,393,888. Twenty-eight percent (28%) or \$10,829,789 of this total is reserved to indicate that it is not available for spending because it has already been committed (1) to pay for encumbrances \$8,691,565, (2) to provide for an advance to another fund \$200,000, (3) to pay for construction \$1,078,306, (4) to pay for debt service \$229,766, (5) to provide for inventory \$4,107, (6) to pay for law enforcement \$595,882, and (7) to provide for prepaid items \$30,163. Approximately 72% of the combined ending fund balance or \$27,564,099 constitutes unreserved fund balance. A portion (29%) of this unreserved fund balance, while not legally obligated, is planned for future capital projects.

In the general fund, the City budgeted for a decrease in fund balance of \$4,336,200. The budgeted decrease was mainly due to a transfer of \$3,300,000 to complete funding for Fire Station No. 3. The remainder of the decrease in fund balance was due to increased legal fees, a new special incentive program, and an increase in personal services due to reinstatement of the city's merit plan and a multi-year public safety salary restructure. The actual fund balance decrease for fiscal year 2007 was \$3,188,689. The unreserved, undesignated portion of general fund balance decreased \$4,903,735. Actual expenditures were \$1,600,325 less than budgeted.

Landfill closure/postclosure fund balance increased \$1,168,840 due to payments received from the landfill operator for future closure costs. Non-bond capital projects fund balance increased by \$939,205 due to transfer of the Public Improvement District No. 1 assessment balance to various construction projects including Fire Station No. 3, street reconstruction, and resurfacing. The fund balance in the TIF No. 1 District capital projects fund increased \$1,949,566 due to developer advances.

Proprietary Funds - The City's water and sewer fund is one component of proprietary funds. The water and sewer fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the water and sewer fund were \$17,109,501. The internal service funds (the other component of proprietary funds) report activities that provide supplies and services for the City's various functions. The City uses internal service funds to account for equipment services and the City's workers' compensation self-insurance program. Because both of these services primarily benefit governmental rather than business-type activities, they have been included with governmental activities in the government-wide financial statements.

General Fund Budgetary Highlights - During the year there was a \$28,800 increase in appropriations between the original and final amended budget. Budgeted general fund revenues were decreased by \$867,000. These were offset by a decrease in budgeted transfers out of \$1,000,000. The result was to decrease the budgeted net change in fund balance by \$62,900. Following are the main components of the change in appropriations:

- City administration expenditures increased \$424,100 due to immigration-related legal defense costs.
- Public safety fire expenditures increased \$129,700 due to reinstatement of the city's merit plan and purchase of additional protective clothing in anticipation of opening Fire Station No. 3.
- Public works engineering expenditures increased \$110,100 due to reinstatement of the merit plan and replacement of two damaged signal cabinets.
- Public works expenditures increased \$82,500 due to replacement of stolen copper wiring and drought-related pavement failures.
- The personal services category for several departments increased due to reinstatement of the City's merit plan.
- These increases were offset by a decrease in public safety police expenditures of \$850,900 due to lower than anticipated red light enforcement implementation costs.
- Fines and forfeitures revenue decreased \$815,000 due to lower than anticipated red light enforcement revenues.
- Transfers out to the non-bond capital projects fund were reduced by \$1,000,000 to provide for the special incentives program paid from the general fund.

CAPITAL ASSETS

The City's investment in capital assets for its government-wide activities as of September 30, 2007, amounts to \$167,833,833 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, infrastructure, and construction in progress.

CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2007
(Unaudited)

Major capital asset events during the current fiscal year included the following:

Completed Projects

- Construction of Mercer Parkway for approximately \$3,492,000.
- Widening of Valley View Lane and Webb Chapel Road for \$1,568,000.
- Replacement of the sanitary sewer lift station at Luna Road \$821,000.
- Utility improvements to water and sanitary sewer lines and gabion walls for about \$503,000.
- City-wide fiber installation for approximately \$329,000.
- Sidewalk construction and replacement of approximately \$324,000.

Amounts Spent for Ongoing Projects

- Construction of Fire Station #3 for about \$4,340,000.
- Utility improvements to water and sanitary sewer lines for about \$2,043,000.
- Infrastructure improvements in TIF No. 1 District for about \$1,339,000.
- Widening of Valley View Lane for approximately \$621,000.

Capital Assets at Year-End Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2007	2006	2007	2006	2007	2006
Land	\$ 39,689,267	\$ 39,502,644	\$ 603,364	\$ 603,364	\$ 40,292,631	\$ 40,106,008
Buildings	30,734,963	31,408,274	3,580,887	3,842,015	34,315,850	35,250,289
Equipment	8,022,849	8,214,173	1,137,277	855,987	9,160,126	9,070,160
Improvements	4,019,766	4,327,334	8,508	10,055	4,028,274	4,337,389
Infrastructure	31,515,852	28,518,156	35,068,617	34,337,111	66,584,469	62,855,267
Construction in progress	10,318,715	12,373,068	3,133,768	1,238,980	13,452,483	13,612,048
Total	<u>\$ 124,301,412</u>	<u>\$ 124,343,649</u>	<u>\$ 43,532,421</u>	<u>\$ 40,887,512</u>	<u>\$ 167,833,833</u>	<u>\$ 165,231,161</u>

Additional information on the City's capital assets can be found in the notes to basic financial statements (see Note 3.C).

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total bonded debt of \$11,870,000. Of this amount, \$1,440,000 comprises bonded debt backed by the full faith and credit of the government, \$10,430,000 comprises debt to be repaid from hotel/motel tax revenues, lease payments from the Dallas Stars, and backed by the full faith and credit of the government. The developer advances of \$11,601,824 represent a loan to the City for capital project costs payable only from Tax Increment Financing District No. 1.

Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 1,440,000	\$ 4,539,505	\$	\$	\$ 1,440,000	\$ 4,539,505
Special revenue bonds	10,430,000	11,865,000			10,430,000	11,865,000
Assessment revenue bonds				2,745,000		2,745,000
Developer advances	11,601,824	8,663,872			11,601,824	8,663,872
Total	<u>\$ 23,471,824</u>	<u>\$ 25,068,377</u>	<u>\$</u>	<u>\$ 2,745,000</u>	<u>\$ 23,471,824</u>	<u>\$ 27,813,377</u>

CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2007
(Unaudited)

The City maintains favorable ratings from bond rating agencies. The ratings are as follows:

	Moody's Investors Service	Date Confirmed	Standard & Poor's	Date Confirmed
General obligation bonds	Aa3	July 20, 2006	AA	December 5, 2007
Special revenue bonds	Aa3	July 20, 2006	AA	December 5, 2007

Additional information on the City's long term-debt can be found in the notes to basic financial statements (see Note 3.E).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the fiscal year 2008 budget, general fund revenues are budgeted to increase by 7.0% from fiscal year 2007 reflecting improvement in the economy. General property taxes make up about 38.6% of general fund budgeted revenues. General fund property tax revenues are projected to increase 16.8% from the fiscal year 2007 budget. This increase was possible without changing the property tax rate because property values increased 10.8% and the property tax revenue needed for the debt service fund decreased 46.6%. General fund sales tax receipts are projected to grow 2.7% from the fiscal year 2007 budget. General fund electric franchise taxes and interest revenues are also expected to increase in line with improvements in the economy. Budgeted revenues for the water and sewer fund are projected to increase 7.0% due to a projected increase in water consumption.

General fund expenditures and transfers out are budgeted to increase 8.7% in fiscal year 2008. Increased costs include a 7.8% increase in personal services which includes approximately \$1.2 million to staff the new fire station, and \$1.4 million to provide for a 3% across-the-board pay increase, a 3% merit increase, and health benefits.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Finance Department, Attn: Director of Finance, at P.O. Box 819010, Farmers Branch, Texas 75381-9010, or call (972) 247-3131, or e-mail charles.cox@farmersbranch.info.

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash, cash equivalents, and investments	\$ 38,282,778	\$ 9,879,455	\$ 48,162,233	\$ 33,908
Receivables, net of allowance for doubtful accounts	8,161,164	1,993,648	10,154,812	1,265
Internal balances	(49,139)	49,139		
Inventory of materials and supplies	74,336		74,336	
Deposits	47,000		47,000	
Prepaid items	33,811	75,047	108,858	
Investment in joint venture		6,126,296	6,126,296	
Deferred charges	188,390		188,390	
Capital assets:				
Nondepreciable	50,007,982	3,737,132	53,745,114	
Depreciable, net of accumulated depreciation	74,293,430	39,795,289	114,088,719	
Capital assets, net of accumulated depreciation	124,301,412	43,532,421	167,833,833	
 Total assets	 171,039,752	 61,656,006	 232,695,758	 35,173
LIABILITIES				
Accounts payable and accrued liabilities	3,934,050	802,328	4,736,378	
Accrued interest payable	2,339,009		2,339,009	
Customer deposits	447,656	145,908	593,564	
Unearned revenue	550,292		550,292	
Retainage payable	74,201	61,983	136,184	
Noncurrent liabilities:				
Due within one year	1,589,028	39,679	1,628,707	
Due in more than one year	42,265,959	295,521	42,561,480	
 Total liabilities	 51,200,195	 1,345,419	 52,545,614	
NET ASSETS				
Invested in capital assets, net of related debt	99,708,332	43,151,947	142,860,279	
Restricted for capital projects	4,189,986		4,189,986	
Unrestricted	15,941,239	17,158,640	33,099,879	35,173
 Total net assets	 \$ 119,839,557	 \$ 60,310,587	 \$ 180,150,144	 \$ 35,173

The accompanying notes are an integral part of the financial statements.

CITY OF FARMERS BRANCH, TEXAS

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for	Operating	Capital
		Services	Grants and	Grants and
			Contributions	Contributions
Primary government:				
Governmental activities:				
General government	\$ 12,193,622	\$ 1,002,945	\$ 83,198	\$
Public safety	18,387,710	4,035,373	70,022	
Public works	10,370,758	3,420,085		960,964
Culture and recreation	11,560,372	880,767	29,135	84,014
Interest on long-term debt	1,386,599			
Unallocated depreciation	137,656			
Total governmental activities	54,036,717	9,339,170	182,355	1,044,978
Business-type activities:				
Water and sewer	11,337,031	12,116,611		98,906
Total business-type activities	11,337,031	12,116,611		98,906
Total primary government	\$ 65,373,748	\$ 21,455,781	\$ 182,355	\$ 1,143,884
Component unit:				
Industrial development corporation	\$ 1,387	\$	\$	\$
Total component unit	\$ 1,387	\$	\$	\$

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales and use taxes

Hotel/motel taxes

Franchise taxes

Tax increment financing

Investment income

Gain/(loss) on sale of capital assets/insurance recoveries

Transfers

Total general revenues and transfers

Change in net assets

Net assets--beginning

Net assets--ending

The accompanying notes are an integral part of the financial statements.

Exhibit A-2

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	
\$ (11,107,479)	\$	\$ (11,107,479)	
(14,282,315)		(14,282,315)	
(5,989,709)		(5,989,709)	
(10,566,456)		(10,566,456)	
(1,386,599)		(1,386,599)	
(137,656)		(137,656)	
<u>(43,470,214)</u>		<u>(43,470,214)</u>	
	878,486	878,486	
	<u>878,486</u>	<u>878,486</u>	
<u>\$ (43,470,214)</u>	<u>\$ 878,486</u>	<u>\$ (42,591,728)</u>	
			\$ (1,387)
			<u>\$ (1,387)</u>
14,413,089		14,413,089	
3,247,023		3,247,023	
12,367,492		12,367,492	
2,487,792		2,487,792	
4,610,225		4,610,225	
775,864		775,864	
3,487,671	760,195	4,247,866	1,756
212,352	(49,100)	163,252	
2,897,390	(2,897,390)		
<u>44,498,898</u>	<u>(2,186,295)</u>	<u>42,312,603</u>	<u>1,756</u>
1,028,684	(1,307,809)	(279,125)	369
118,810,873	61,618,396	180,429,269	34,804
<u>\$ 119,839,557</u>	<u>\$ 60,310,587</u>	<u>\$ 180,150,144</u>	<u>\$ 35,173</u>

CITY OF FARMERS BRANCH, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007

	General	Landfill Closure/ Postclosure	Non-Bond Capital Projects	TIF No. 1 District Capital Projects	Nonmajor Governmental Funds
ASSETS					
Cash, cash equivalents, and investments	\$ 10,732,657	\$ 7,772,583	\$ 9,701,712	\$ 3,855,395	\$ 5,190,072
Receivables, net	5,317,325	57,569	1,549,180	300,104	542,666
Accrued interest and other	126,538	68,695	126,881	25,370	45,241
Due from other funds	18,500				
Inventories					4,107
Advances to other funds			200,000		
Prepaid items	30,163				
Total assets	<u>\$ 16,225,183</u>	<u>\$ 7,898,847</u>	<u>\$ 11,577,773</u>	<u>\$ 4,180,869</u>	<u>\$ 5,782,086</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 2,560,391	\$ 6,349	\$ 1,024,858	\$ 138,639	\$ 87,326
Customer deposits	23,316				424,340
Due to other funds					18,500
Deferred revenue	1,670,243			300,104	742,603
Advances due to other funds					200,000
Retainage payable	26,221		10,358	23,046	14,576
Total liabilities	<u>4,280,171</u>	<u>6,349</u>	<u>1,035,216</u>	<u>461,789</u>	<u>1,487,345</u>
Fund balances:					
Reserved for encumbrances	1,626,351	80,351	3,282,793	3,026,166	675,904
Reserved for advances			200,000		
Reserved for construction				692,914	385,392
Reserved for debt service					229,766
Reserved for inventory					4,107
Reserved for law enforcement					595,882
Reserved for prepaid items	30,163				
Unreserved, reported in:					
General fund:					
Designated for capital assets	871,283				
Designated for special incentives	784,232				
Undesignated	8,632,983				
Special revenue funds:					
Designated for landfill closure/postclosure		7,812,147			
Designated for special purposes					2,291,148
Capital project funds:					
Designated for construction			7,059,764		148,001
Undesignated					(35,459)
Total fund balances	<u>11,945,012</u>	<u>7,892,498</u>	<u>10,542,557</u>	<u>3,719,080</u>	<u>4,294,741</u>
Total liabilities and fund balances	<u>\$ 16,225,183</u>	<u>\$ 7,898,847</u>	<u>\$ 11,577,773</u>	<u>\$ 4,180,869</u>	<u>\$ 5,782,086</u>

The accompanying notes are an integral part of the financial statements.

Total Governmental Funds
<hr/>
\$ 37,252,419
7,766,844
392,725
18,500
4,107
200,000
30,163
<hr/>
\$ 45,664,758
<hr/>

\$ 3,817,563
447,656
18,500
2,712,950
200,000
74,201
<hr/>
7,270,870
<hr/>

8,691,565
200,000
1,078,306
229,766
4,107
595,882
30,163

871,283
784,232
8,632,983

7,812,147
2,291,148

7,207,765
(35,459)

38,393,888

\$ 45,664,758

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

Total Fund Balances - Total Governmental Funds: \$ 38,393,888

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources, and, therefore, are not reported in the governmental funds balance sheet (net of internal service fund assets of \$345,608). 123,955,804

Other long-term assets are not available to pay for current period expenditures, and, therefore, are deferred in the funds. 2,162,658

Internal service funds are used by management to charge the cost of certain activities, such as fleet management and workers' compensation, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net assets (net of amount allocated to business-type activities of \$49,139). 914,314

Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets. Also, during the year the City issued new debt. The amount borrowed is received in the governmental funds and increases fund balance.

Bonds payable and developer advances	\$ (23,471,824)	
Less deferred interest from refunding and bond discount amortization	48,343	
Less deferred charges	188,390	
Accrued interest	(2,339,009)	
Compensated absences (net of internal service fund \$46,032)	(6,114,295)	
Landfill liability	(13,898,712)	
Combined adjustment		(45,587,107)
Net assets of governmental activities		<u>\$ 119,839,557</u>

The accompanying notes are an integral part of the financial statements.

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CITY OF FARMERS BRANCH, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	General	Landfill Closure/ Postclosure	Non-Bond Capital Projects	TIF No. 1 District Capital Projects	Nonmajor Governmental Funds
REVENUES					
Property taxes	\$ 14,291,800	\$	\$	\$	\$ 3,230,013
Sales and use taxes	12,367,492				
Hotel/motel taxes					2,487,792
Franchise taxes	4,649,499				
Tax increment financing				451,240	32,018
Licenses and permits	847,741				
Charges for services	4,796,883	778,850			
Fines and forfeitures	2,616,722				172,097
Investment income	1,070,033	405,199	603,506	149,645	906,100
Intergovernmental			84,014		1,044,078
Miscellaneous	102,480				113,900
Total revenues	40,742,650	1,184,049	687,520	600,885	7,985,998
EXPENDITURES					
Current:					
General government	9,831,145				77,037
Public safety	16,801,893				247,418
Public works	7,166,136	15,209			
Culture and recreation	9,470,901				1,291,957
Debt service:					
Principal retirement					3,565,000
Interest and fiscal agent charges					747,375
Issuance costs					6,000
Capital outlay			5,705,528	1,534,954	1,019,578
Total expenditures	43,270,075	15,209	5,705,528	1,534,954	6,954,365
Excess (deficiency) of revenues over (under) expenditures	(2,527,425)	1,168,840	(5,018,008)	(934,069)	1,031,633
OTHER FINANCING SOURCES (USES)					
Transfers in	2,637,317		5,957,213		2,082,259
Transfers out	(3,612,500)			(54,317)	(2,373,259)
Proceeds from developer advances				2,937,952	
Payment to refund bond escrow agent					(917,004)
Sale of capital assets/insurance recoveries	313,919				
Total other financing sources (uses)	(661,264)		5,957,213	2,883,635	(1,208,004)
Net change in fund balances	(3,188,689)	1,168,840	939,205	1,949,566	(176,371)
Fund balances--beginning	15,133,701	6,723,658	9,603,352	1,769,514	4,471,112
Fund balances--ending	\$ 11,945,012	\$ 7,892,498	\$ 10,542,557	\$ 3,719,080	\$ 4,294,741

The accompanying notes are an integral part of the financial statements.

Exhibit B-3

Total Governmental Funds	
\$	17,521,813
	12,367,492
	2,487,792
	4,649,499
	483,258
	847,741
	5,575,733
	2,788,819
	3,134,483
	1,128,092
	216,380
	51,201,102
	9,908,182
	17,049,311
	7,181,345
	10,762,858
	3,565,000
	747,375
	6,000
	8,260,060
	57,480,131
	(6,279,029)
	10,676,789
	(6,040,076)
	2,937,952
	(917,004)
	313,919
	6,971,580
	692,551
	37,701,337
\$	38,393,888

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

Net change in fund balances - total governmental funds \$ 692,551

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$6,042,717) exceeded depreciation (\$4,791,458) in the current period and were reduced by the transfer of completed assets to the utility fund (\$1,739,323). (488,064)

The net effect of the various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets. 300,029

Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the increase/(decrease) during the current year in deferred revenue that is earned, but not collected.

Property tax revenue	\$ 138,299	
Franchise taxes	(39,274)	
Tax increment financing	292,606	
Ambulance revenue	9,738	
Net adjustment		401,369

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the government-wide statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issued:

Developer advances	\$ (2,937,952)
--------------------	----------------

Repayments:

To bond holders	3,565,000	
To paying agent for bond principal	920,000	
Net adjustment		1,547,048

Some expenses reported in the government-wide statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	\$ (317,977)	
Difference in debt-related amortizations	(69,766)	
Accrued interest on long-term debt	(652,722)	
Landfill liability	(768,810)	
Net adjustment		(1,809,275)

Internal service funds are used by management to charge the costs of certain activities, such as fleet management and workers' compensation, to individual funds. The net income of the internal service funds is reported with governmental activities (net of amount allocated to business-type activities of \$62,260). 385,026

Change in net assets of governmental activities: \$ 1,028,684

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	2007					
	Budgeted Amounts		Actual Amounts	Adjustments	Actual Amounts	Variance with Final Budget -
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	Positive (Negative)
REVENUES						
Property taxes	\$ 14,410,000	\$ 14,410,000	\$ 14,291,800	\$	\$ 14,291,800	\$ (118,200)
Sales and use tax	12,450,000	12,450,000	12,367,492		12,367,492	(82,508)
Franchise taxes	4,608,200	4,523,200	4,649,499		4,649,499	126,299
Licenses and permits	812,000	812,000	847,741		847,741	35,741
Charges for services	4,970,300	4,943,300	4,796,883		4,796,883	(146,417)
Fines and forfeitures	3,884,000	3,069,000	2,616,722		2,616,722	(452,278)
Investment income	928,000	988,000	1,070,033		1,070,033	82,033
Miscellaneous	138,000	138,000	102,480		102,480	(35,520)
Total revenues	42,200,500	41,333,500	40,742,650		40,742,650	(590,850)
EXPENDITURES						
Current:						
General government	9,592,800	10,043,000	9,831,145	113,687	9,944,832	98,168
Public safety	17,965,700	17,244,500	16,801,893	588,465	17,390,358	(145,858)
Public works	7,405,500	7,598,100	7,166,136	252,107	7,418,243	179,857
Culture and recreation	9,877,600	9,984,800	9,470,901	106,646	9,577,547	407,253
Total expenditures	44,841,600	44,870,400	43,270,075	1,060,905	44,330,980	539,420
Excess (deficiency) of revenues over (under) expenditures	(2,641,100)	(3,536,900)	(2,527,425)	(1,060,905)	(3,588,330)	(51,430)
OTHER FINANCING SOURCES (USES)						
Transfers in	2,633,000	2,633,000	2,637,317		2,637,317	4,317
Transfers out	(4,612,500)	(3,612,500)	(3,612,500)		(3,612,500)	
Sale of capital assets/insurance recoveries	221,500	180,200	313,919		313,919	133,719
Total other financing uses	(1,758,000)	(799,300)	(661,264)		(661,264)	138,036
Net change in fund balance	(4,399,100)	(4,336,200)	(3,188,689)	(1,060,905)	(4,249,594)	86,606
Fund balances--beginning	14,233,988	14,233,988	15,133,701	(899,713)	14,233,988	
Fund balances--ending	\$ 9,834,888	\$ 9,897,788	\$ 11,945,012	\$ (1,960,618)	\$ 9,984,394	\$ 86,606

Explanation of differences:

Expenditures of amounts encumbered at September 30, 2006	\$ 565,446
Reserved (GAAP) for encumbrances at September 30, 2007, but recognized as expenditures for budget purposes	(1,626,351)
Net decrease in fund balance - GAAP to budget	\$ (1,060,905)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - LANDFILL CLOSURE/POSTCLOSURE FUND
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	2007					
	Budgeted Amounts		Actual Amounts	Adjustments	Actual Amounts	Variance with
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	Final Budget - Positive (Negative)
REVENUES						
Charges for services	\$ 850,000	\$ 770,000	\$ 778,850	\$	\$ 778,850	\$ 8,850
Investment income		300,000	405,199		405,199	105,199
Total revenues	850,000	1,070,000	1,184,049		1,184,049	114,049
EXPENDITURES						
Public works	1,305,000	100,000	15,209	67,851	83,060	16,940
Total expenditures	1,305,000	100,000	15,209	67,851	83,060	16,940
Excess (deficiency) of revenues over (under) expenditures	(455,000)	970,000	1,168,840	(67,851)	1,100,989	130,989
Fund balances--beginning	6,711,158	6,711,158	6,723,658	(12,500)	6,711,158	
Fund balances--ending	\$ 6,256,158	\$ 7,681,158	\$ 7,892,498	\$ (80,351)	\$ 7,812,147	\$ 130,989

The accompanying notes are an integral part of the financial statements.

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2007

	Business-type Activities -- Water and Sewer Fund	Governmental Activities -- Internal Service Funds
ASSETS		
Current assets:		
Cash, cash equivalents, and investments	\$ 9,879,455	\$ 1,030,359
Receivables, net	1,889,444	1,595
Accrued interest and other	104,204	
Inventories and prepayments	75,047	73,877
Deposits		47,000
Total current assets	11,948,150	1,152,831
Noncurrent assets:		
Investment in joint venture	6,126,296	
Capital assets:		
Nondepreciable	3,737,132	8,170
Depreciable, net of accumulated depreciation	39,795,289	337,438
Total noncurrent assets	49,658,717	345,608
Total assets	61,606,867	1,498,439
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	802,328	116,487
Retainage payable	61,983	
Claims payable		149,262
Compensated absences	39,679	30,786
Deposits	145,908	
Total current liabilities	1,049,898	296,535
Noncurrent liabilities:		
Claims payable		223,205
Compensated absences	295,521	15,246
Total noncurrent liabilities	295,521	238,451
Total liabilities	1,345,419	534,986
NET ASSETS		
Invested in capital assets, net of related debt	43,151,947	322,666
Unrestricted	17,109,501	640,787
Total net assets	\$ 60,261,448	\$ 963,453
Reconciliation to government-wide statement of net assets:		
Adjustment to reflect the consolidation of internal service fund activities related to the water and sewer fund	49,139	
Net assets of business-type activities	\$ 60,310,587	

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Business-type Activities -- Water and Sewer Fund	Governmental Activities -- Internal Service Funds
Operating revenues		
Charges for services	\$ 12,114,700	\$ 2,289,906
Contributions and miscellaneous	1,911	533,821
Total operating revenues	12,116,611	2,823,727
Operating expenses		
Personal services	1,655,323	715,980
Materials and supplies	142,726	1,258,535
Maintenance and utilities	993,066	215,139
Purchase of water	4,215,899	
Sewage treatment	2,205,728	
Insurance claims and expenses		167,082
Depreciation	1,969,637	19,705
Total operating expenses	11,182,379	2,376,441
Operating income	934,232	447,286
Nonoperating revenues (expenses)		
Investment income	760,195	
Assessment interest income	98,906	
Loss of the joint venture	(65,523)	
Loss on sale of capital assets	(49,100)	
Interest expense and fiscal agent charges	(151,389)	
Total nonoperating revenue (expenses)	593,089	
Income before transfers and capital contributions	1,527,321	447,286
Capital contributions	1,739,323	
Transfers out	(4,636,713)	
Change in net assets	(1,370,069)	447,286
Net assets--beginning	61,631,517	516,167
Net assets--ending	\$ 60,261,448	\$ 963,453
Reconciliation to government-wide statement of net assets:		
Change in net assets	\$ (1,370,069)	
Adjustment to reflect the consolidation of internal service fund activities related to the water and sewer fund	62,260	
Change in net assets of business-type activities	\$ (1,307,809)	

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Business-type Activities -- Water and Sewer Fund	Governmental Activities -- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 12,379,261	\$
Receipts from interfund services provided		2,814,452
Payments to suppliers	(6,928,793)	(1,462,603)
Payments to employees	(1,565,044)	(812,278)
Payments for loss claims		(282,918)
Payments for interfund services	(329,609)	
Net cash provided by operating activities	3,555,815	256,653
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	(4,636,713)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Special assessments	1,904,144	
Interest on special assessments	98,906	
Acquisition and construction of capital assets	(2,939,159)	(165,503)
Proceeds from sale of capital assets	14,836	
Principal paid on revenue bond maturities	(2,745,000)	
Interest paid on revenue bonds	(104,385)	
Net cash used by capital and related financing activities	(3,770,658)	(165,503)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	4,118,982	
Investment income	732,574	
Net cash provided by investing activities	4,851,556	
Net increase in cash and cash equivalents		91,150
Cash and cash equivalents - beginning of year		939,209
Cash and cash equivalents - end of year	\$	\$ 1,030,359
Cash and cash equivalents - end of year	\$	\$ 1,030,359
Investments	9,879,455	
Cash, cash equivalents, and investments - end of year	\$ 9,879,455	\$ 1,030,359
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions from governmental funds	\$ 1,739,323	
Loss of the joint venture	(65,523)	

The accompanying notes are an integral part of the financial statements.

(continued)

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Business-type Activities -- Water and Sewer Fund	Governmental Activities -- Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 934,232	\$ 447,286
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,969,637	19,705
Change in assets and liabilities:		
Decrease in receivables	247,172	1,725
Decrease in inventory of materials and supplies		4,458
Increase in deposits		(11,000)
Increase in prepaid items	(705)	(93)
Increase in accounts payable	321,348	
Increase in accrued liabilities		2,944
Increase in retainage payable	49,747	
Decrease in claims payable		(115,836)
Increase in deposits payable	15,478	
Increase (decrease) in accrued compensated absences	18,906	(92,536)
Net cash provided by operating activities	<u>\$ 3,555,815</u>	<u>\$ 256,653</u>

The accompanying notes are an integral part of the financial statements.

(concluded)

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Farmers Branch, Texas (the "City") have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") applicable to state and local governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the City are described below.

A. Reporting Entity

The City is a municipal corporation governed by an elected mayor and a five-member council. The City was incorporated in 1946 under the Constitution of the State of Texas (Home Rule Amendment). As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the City. The primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. Because of the closeness of their relationship with the primary government (the City), some component units are blended as though they are part of the primary government; most component units are discretely presented. The City has no blended component units; however, discretely presented component units and the joint venture, which all have a September 30 year-end, are as follows:

Discretely Presented Component Units

The Farmers Branch Housing Finance Corporation ("Housing Corporation") was created in 1993 for the special purpose of providing a financing mechanism for the development and ownership of residential and multi-family housing initiatives. The members of the Housing Corporation Board are appointed by the City Council. Thus, the Housing Corporation is a part of the City's reporting entity. The Housing Corporation has placed all mortgage loans and pledged related collateral and credit enhancements with a trustee in an irrevocable trust. Solely the revenues received from the organizations on whose behalf they were issued secure the conduit bonds, which do not constitute indebtedness of the City nor the Housing Corporation, and the City assumes no responsibility for the operating expenses of the Housing Corporation. Accordingly, the conduit bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2007, there were two series of Single Family Mortgage Revenue Bonds outstanding, Series 1996 and Series 1999, with principal amounts payable of \$100,000 and \$81,431, respectively. The Housing Corporation had no revenues or expenditures and has no assets, liabilities or fund balance as of September 30, 2007; therefore, no financial statements have been presented.

The Farmers Branch Industrial Development Corporation ("Development Corporation") was created for the special purpose of promoting and developing commercial, industrial, and manufacturing enterprises and encouraging employment within the boundaries of the City. The members of the Development Corporation Board are appointed by the City Council. The Development Corporation's financial activities are discretely presented in the City's financial statements as a governmental fund. The Development Corporation is authorized to issue industrial development revenue bonds after approval by the City Council. The Development Corporation has issued conduit bonds that have fully matured in previous years. Complete financial statements of the Development Corporation can be obtained from the City's finance department.

Joint Venture

The North Dallas County Water Supply Corporation ("NDCWSC") is a joint venture between the City and the Town of Addison (the "Town") to design, construct, operate, and maintain a joint sanitary sewer interceptor and conventional sewer lines. The NDCWSC, a public instrumentality and nonprofit water supply corporation, was created for that purpose. Upon dissolution of the NDCWSC, the City and Town will share the net assets in the proportions stated in an inter-local agreement. The affairs of the NDCWSC are managed by a six-person board of directors appointed by the governing bodies of the City and the Town.

The City and the Town are each obligated to fund construction of the sanitary sewer interceptor in the proportions stated in the inter-local agreement. The City has financed its portion of construction funds through the issuance and sale of assessment revenue bonds and a transfer from previously issued sewer bonds. The City's net investment and its share of the operating results of the NDCWSC are reported in the City's water and sewer fund. The City's equity interest in the NDCWSC was \$6,126,296 at September 30, 2007. Complete financial statements for the NDCWSC can be obtained from the City's finance department.

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

B. Basic Financial Statements

The basic financial statements include both government-wide financial statements (based on the City as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected on a full accrual economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures and expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property, franchise, sales and hotel occupancy taxes and investment income (including unrealized gains and losses) are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.

The City reports the following major governmental funds:

The *general fund* is the primary operating fund of the City. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The *landfill closure/postclosure fund* is used to account for future landfill costs.

The *non-bond capital projects fund* is used to account for the acquisition and construction of major capital facilities.

The *TIF No. 1 District capital projects fund* accounts for infrastructure construction in the Mercer Crossing tax increment financing district and is funded from developer contributions and advances and property tax payments.

The City reports the following major proprietary fund:

The *water and sewer fund* is used to account for water and sewer service operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided the periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

The City reports the following internal service funds:

The *internal service funds* are used to account for equipment services and the City's workers' compensation self-insurance program for the departments of the City on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund and the government's internal service funds are charges to customers for sales and services. Operating expenses for water and sewer funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources, as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1) Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

To maximize investment opportunities, all funds (excluding the debt service fund and the internal service funds) participate in a pooling of cash and investment income. Each fund may liquidate its equity in the pool on demand. Investments are recorded at fair value, except for investments with maturity of one year or less from date of purchase, which are stated at amortized cost. Fair value is based on quoted market prices.

2) Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 5% of outstanding property taxes at September 30, 2007.

The City's property taxes are levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Assessed values are established at 100% of estimated market value. Property taxes attach as an enforceable lien on property as of January 1. Taxes are due by January 31 following the October 1 levy date and are considered delinquent after January 31 of each year.

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

3) Inventories and Prepaid Items

Inventories are stated at the lower of average cost or market for the internal service funds and at average cost for the special revenue funds. Inventories are recorded as assets when purchased and charged to operations when used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4) Capital Assets

Capital assets, which include land, buildings, equipment, improvements, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), purchased or acquired, are carried at historical cost or estimated historical cost if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed. Insurance recoveries of \$212,352 were received for the year ended September 30, 2007. They are included as an other financing source in the general fund. A capitalization threshold of \$5,000 is used for all capital assets. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

Buildings	30 - 50	years
Equipment	5 - 30	years
Improvements	20	years
Infrastructure	15 - 62.5	years

5) Compensated Absences

The City's employees earn vacation leave (up to a maximum of 192 hours per year) based on days employed. Upon retirement or termination, payment of accumulated vacation may not exceed that which can be accumulated within two years. Unused sick leave, based on days employed, may be accumulated up to certain limits. Upon retirement or termination, a maximum of 720 hours of sick pay is paid for 40 hours per week employees or 1,080 hours for 56 hours per week employees hired before October 1, 1992. Upon retirement or termination, employees hired on October 1, 1992 or later with five years or less of service will be paid a maximum of 120 hours of sick pay for 40 hours per week employees or 180 hours for 56 hours per week employees. Upon retirement or termination, employees hired on October 1, 1992 or later with more than five years of service will be paid a maximum of 240 hours of sick pay for 40 hours per week employees or 360 hours for 56 hours per week employees.

6) Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

As of September 30, 2007, the City reserved a portion of general fund balance for encumbrances and prepaid items, a portion of special revenue fund balance for encumbrances, inventory, and law enforcement, the entire debt service fund balance for debt service, and a portion of the capital projects fund balance for encumbrances, advances, and construction.

The City designated a portion of the general fund's unreserved fund balance for capital assets and special incentives. Designations for special purposes of the special revenue fund unreserved fund balance are segregated so as to be utilized in accordance with state law or other restricted purpose as applied to hotel/motel tax revenue, landfill closure, grants, and contributions that are designated to finance particular functions or activities of the City. Designations of the capital projects fund balance are not legally required segregations, but are segregated for construction.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Budget Policy – By August 1 of each fiscal year, the City Manager submits an annual budget to the City Council. Annual operating budgets are prepared on a budgetary basis for all governmental funds, whereby year-end encumbrances are recognized as expenditures in the current year budget. Budgetary data for the capital projects funds has not been presented in these statements as these funds are budgeted over the life of the respective project and not on an annual basis. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year on October 1. Once the budget is approved, the City Manager is authorized to transfer unencumbered appropriations within each departmental division's summary budget category as itemized in the adopted budget. City Council approval is necessary for transfers of unencumbered appropriations between departments, functions and funds. Special revenue funds are budgeted at the function level.

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

Budgetary Data – Budget amounts presented in the general fund's and landfill closure/postclosure fund's "Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual" reflect the original budget and the amended budget (which has been adjusted for legally authorized revisions to the annual budget during the year). Appropriations, except remaining project appropriations and encumbrances, lapse at the end of the fiscal year.

During the year certain budget amendments were required, including a decrease of \$62,900 in the general fund budget and a decrease of \$1,425,000 in the landfill closure/postclosure fund due to a \$1,205,000 reduction of expenditures for a gas collection system, a \$300,000 increase in revenue for investment income, and an \$80,000 decrease in charges for services.

Excess of Expenditures Over Appropriations

For the year ended September 30, 2007, expenditures in the general fund's general government city administration department exceeded appropriations by \$176,122. This excess over appropriations was due to higher than anticipated immigration-related legal defense costs and personal services expenditures due to an unanticipated retirement. The general fund's public safety fire department exceeded appropriations by \$371,020. The budget for large capital asset purchases is allocated over several years. This creates a negative variance in the year of purchase. Available fund balance was sufficient to provide for the excess expenditures.

B. Deficit Fund Equity

The deficit of \$35,459 in the TIF No. 2 District capital projects fund is due to the use of the \$200,000 advance from the non-bond capital projects fund for construction prior to receipt of tax increment financing revenue. Elimination of the deficit is expected as property tax revenues increase with new construction activity in the district.

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At year-end, the carrying amount of the City's deposits was (\$1,244,423) and the bank balance was \$170,337. The bank balance was completely covered by federal depository insurance or by collateral held by the City's agent in the City's name. At year-end, the carrying amount of the Development Corporation's deposits was \$33,908 and the bank balance was \$33,908. The bank balance was completely covered by federal depository insurance.

State statutes, City bond ordinances, and City resolutions authorize the City's investments. The City is authorized to invest in U.S. Government obligations and its agencies or instrumentalities, direct obligations of Texas and its agencies and instrumentalities, obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent rating, insured or collateralized certificates of deposit, fully collateralized repurchase agreements, and government pools.

The City elects to exclude investments with maturity of one year or less from date of purchase from fair value reporting. These investments are reported at amortized cost. As of September 30, 2007, the City had the following investments:

Description	Reported Amount	Fair Value	Weighted Average
			Maturity (in days)
Treasury Notes	\$ 9,294,765	\$ 9,300,467	33
Fannie Mae Notes	10,283,403	10,291,115	316
Freddie Mac Notes	7,486,926	7,486,926	257
Federal Home Loan Bank Notes	18,555,745	18,555,745	266
Farmer Mac	2,217,218	2,217,218	504
Repurchase Agreements	1,568,599	1,568,599	1
Total Investments	<u>\$ 49,406,656</u>	<u>\$ 49,420,070</u>	
Portfolio Weighted Average Maturity			233

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to eighteen months (548 days).

Credit Risk. The City's investment policy is to apply the "prudent investor" standard: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The City's investments in the bonds of U.S. agencies were rated Aaa by Moody's Investors Service and AAA by Standard and Poor's.

Concentration of Credit Risk. The City places no limit on the amount the City may invest in any one issuer. However, the City's investment policy calls for portfolio diversification by avoiding over-concentration in a specific maturity sector or specific instruments. The City's portfolio is 20.78% invested in Fannie Mae notes, 37.50% invested in Federal Home Loan Bank and 15.20% invested in Freddie Mac notes as of September 30, 2007. The remainder (26.52%) of the City's investments is invested in U.S. government issues or U.S. guaranteed obligations.

Cash and cash equivalents are reported at cost. Total deposits and investments are presented on the Statement of Net Assets as:

	Primary Government	Component Unit	Reporting Entity
Cash, cash equivalents, and investments	\$ 48,162,233	\$ 33,908	\$ 48,196,141

B. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Landfill Closure/ Postclosure	Non-Bond Capital Projects	TIF No. 1 District Capital Projects	Water and Sewer	Nonmajor Governmental	Total
Receivables:							
Property tax	\$ 914,094	\$	\$	\$	\$	\$ 267,306	\$ 1,181,400
Other taxes	2,131,001					234,331	2,365,332
Accounts	3,468,781	57,569	8,598		944,725	50,255	4,529,928
Unbilled accounts					994,897		994,897
Assessments			1,554,100	300,104		4,139	1,858,343
Gross receivables	6,513,876	57,569	1,562,698	300,104	1,939,622	556,031	10,929,900
Less: Allowance for uncollectibles	(1,196,551)		(13,518)		(50,178)	(13,365)	(1,273,612)
Net total receivables	\$ 5,317,325	\$ 57,569	\$ 1,549,180	\$ 300,104	\$ 1,889,444	\$ 542,666	\$ 9,656,288

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

C. Capital Assets

Capital asset activity for the year ended September 30, 2007 was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and right-of-way	\$ 39,502,644	\$ 186,623	\$	\$ 39,689,267
Construction in progress	12,373,068	3,354,520		10,318,715
Total capital assets, not being depreciated	51,875,712	3,541,143		50,007,982
Capital assets, being depreciated				
Improvements	7,502,777	36,142		7,548,289
Buildings	37,132,987	90,448	(15,800)	37,207,635
Equipment	19,252,174	1,519,863	(569,724)	20,202,313
Infrastructure	79,713,658	1,373,812	(9,433)	84,738,217
Total capital assets, being depreciated	143,601,596	3,020,265	(594,957)	149,696,454
Less accumulated depreciation for:				
Improvements	(3,175,443)	(353,080)		(3,528,523)
Buildings	(5,724,713)	(761,073)	13,114	(6,472,672)
Equipment	(11,038,001)	(1,660,714)	519,251	(12,179,464)
Infrastructure	(51,195,502)	(2,036,296)	9,433	(53,222,365)
Total accumulated depreciation	(71,133,659)	(4,811,163)	541,798	(75,403,024)
Total capital assets, being depreciated, net	72,467,937	(1,790,898)	(53,159)	74,293,430
Governmental activities capital assets, net	\$ 124,343,649	\$ 1,750,245	\$ (53,159)	\$ 124,301,412
Business-type activities:				
Capital assets, not being depreciated:				
Land and right-of-way	\$ 603,364	\$	\$	\$ 603,364
Construction in progress	1,238,980	2,274,726		3,133,768
Total capital assets, not being depreciated	1,842,344	2,274,726		3,737,132
Capital assets, being depreciated:				
Improvements	23,206			23,206
Buildings	8,790,050	19,868	(17,557)	8,792,361
Equipment	2,517,262	405,710	(34,301)	2,888,671
Infrastructure	68,037,810	238,856	(127,551)	70,268,376
Total capital assets, being depreciated	79,368,328	664,434	(179,409)	81,972,614
Less accumulated depreciation for:				
Improvements	(13,151)	(1,547)		(14,698)
Buildings	(4,948,035)	(276,314)	12,875	(5,211,474)
Equipment	(1,661,275)	(122,998)	32,879	(1,751,394)
Infrastructure	(33,700,699)	(1,568,778)	69,718	(35,199,759)
Total accumulated depreciation	(40,323,160)	(1,969,637)	115,472	(42,177,325)
Total capital assets, being depreciated, net	39,045,168	(1,305,203)	(63,937)	39,795,289
Business-type activities capital assets, net	\$ 40,887,512	\$ 969,523	\$ (63,937)	\$ 43,532,421

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

The preceding schedule includes internal service assets in the governmental activities. Internal service fund depreciation expense is allocated to the primary government based on each function's or program's usage of its services.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 112,213
Public safety	880,919
Public works, which includes the depreciation of general infrastructure assets	2,399,498
Culture and recreation	1,280,877
Unallocated	137,656
Total depreciation expense - governmental activities	<u>\$ 4,811,163</u>
Business-type activities:	
Water and sewer	\$ 1,969,637
Total depreciation expense business-type activities	<u>\$ 1,969,637</u>

Construction Commitments

The City has entered into several construction contracts during the fiscal year, which include street improvements, replacement of water mains, and the construction of municipal facilities. As of September 30, 2007, the City had outstanding construction contracts totaling \$7,830,342 that will be financed from operating funds.

	<u>Committed</u>
Non-bond projects fund	\$ 3,282,793
DART fund	120,973
Hotel/Motel capital projects fund	7,500
Water and sewer fund	1,345,297
TIF No. 1 District capital projects fund	3,026,166
TIF No. 2 District capital projects fund	47,613
Total	<u>\$ 7,830,342</u>

D. Interfund Receivables, Payables, and Transfers

Interfund balances at September 30, 2007 consisted of the following:

Due to / from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund - Grant fund	\$ 18,500

Purpose of Due To / From Other Funds

Due to/from transactions are used for short-term interfund loans. The outstanding balance is the result of a time lag between the date the grant revenue was received and the date the qualifying grant expenditure was made.

Advances from / to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Non-bond capital projects fund	Nonmajor governmental fund - TIF No. 2 District fund	\$ 200,000

Purpose of Advances

Advances are used for long-term interfund loans. The advance listed above is to finance the start of construction projects in the TIF No. 2 District until adequate tax revenues have been received.

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

Government interfund transfers during the year ended September 30, 2007 were as follows:

TRANSFERS OUT	TRANSFERS IN			Total
	General Fund	Non-Bond Capital Projects Fund	Nonmajor Governmental Funds	
General Fund	\$	\$ 3,612,500	\$	\$ 3,612,500
TIF No. 1 District Capital Projects Fund	54,317			54,317
Nonmajor Governmental Funds	291,000		2,082,259	2,373,259
Water and Sewer Fund	2,292,000	2,344,713		4,636,713
Total	\$ 2,637,317	\$ 5,957,213	\$ 2,082,259	\$ 10,676,789

Eliminations

Interfund receivables, payables, and transfers are reported in the governmental activities and business-type activities fund financial statements. In the entity-wide statements, interfund receivables, payables, and transfers are eliminated within the governmental activities column and business-type column, as appropriate.

Purpose of Transfers

Transfers are used to (1) move unrestricted revenues collected in the general fund to finance various programs in accordance with budgetary authorizations, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) for the water and sewer fund to the general fund for a payment in lieu of taxes (\$2,292,000) and to the non-bond capital projects fund to move the Public Improvement District No. 1 assessment balance no longer restricted to water and sewer improvements due to payoff of the related debt (\$2,344,713).

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

E. Long-Term Debt and Obligations

Long-term liability activity for the year ended September 30, 2007 is summarized as follows:

	Balance at Beginning of Year	Increase	Decrease	Balance at End of Year	Due Within One Year
<u>Governmental activities</u>					
General obligation bonds	\$ 4,539,505	\$	\$ (3,099,505)	\$ 1,440,000	\$ 415,000
Special revenue bonds	11,865,000		(1,435,000)	10,430,000	510,000
Less deferred amounts:					
For issuance discounts	(22,024)		7,157	(14,867)	(1,765)
On refunding	(56,326)		22,850	(33,476)	(6,867)
Total bonds payable	16,326,155		(4,504,498)	11,821,657	916,368
Developer advances	8,663,872	2,937,952		11,601,824	
Compensated absences	5,934,886	742,732	(517,291)	6,160,327	523,398
Claims payable	488,303	77,654	(193,490)	372,467	149,262
Landfill closure and postclosure care costs	13,129,902	768,810		13,898,712	
Governmental activities long-term debt	\$ 44,543,118	\$ 4,527,148	\$ (5,215,279)	\$ 43,854,987	\$ 1,589,028
<u>Business-type activities</u>					
Assessment revenue bonds	\$ 2,745,000	\$	\$ (2,745,000)	\$	\$
Less deferred amounts:					
For issuance discounts	(408)		408		
On refunding	(36,494)		36,494		
Total bonds payable	2,708,098		(2,708,098)		
Arbitrage liability	11,703		(11,703)		
Compensated absences	316,294	35,715	(16,809)	335,200	39,679
Business-type activities long-term debt	\$ 3,036,095	\$ 35,715	\$ (2,736,610)	\$ 335,200	\$ 39,679
Total	\$ 47,579,213	\$ 4,562,863	\$ (7,951,889)	\$ 44,190,187	\$ 1,628,707

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the totals for governmental activities. At year-end, claims payable of \$372,467 and \$46,032 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims payable and compensated absences are generally liquidated by the general fund and hotel/motel fund.

The developer advances will be liquidated from the TIF No. 1 District capital projects fund. The landfill closure and postclosure care costs will be liquidated from the landfill closure/postclosure fund.

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

Bonds payable at September 30, 2007 are comprised of the following individual issues:

	Interest Rate (%)	Issue Date	Maturity Date	Amount Outstanding
<u>Governmental activities</u>				
General obligation bonds:				
2002 Refunding	3.00 - 3.70	12/16/2002	8/15/2012	\$ 1,440,000
Total general obligation bonds				<u>1,440,000</u>
Special revenue bonds:				
1999 Hotel occupancy tax	4.65 - 6.00	7/15/1999	8/15/2014	2,710,000
2004 Combination tax and revenue	2.65 - 5.80	4/5/2004	11/1/2029	7,720,000
Total special revenue bonds				<u>10,430,000</u>
Total governmental activities				<u>\$ 11,870,000</u>

The City currently has \$27,985,000 of authorized, but unissued, general obligation bonds.

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2007 are as follows:

Governmental activities

Year Ending September 30	<u>General Obligation Bonds</u>			<u>Special Revenue Bonds</u>		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 415,000	\$ 46,158	\$ 461,158	\$ 510,000	\$ 558,859	\$ 1,068,859
2009	420,000	33,707	453,707	535,000	536,686	1,071,686
2010	195,000	21,108	216,108	560,000	512,534	1,072,534
2011	200,000	14,770	214,770	585,000	485,714	1,070,714
2012	210,000	7,770	217,770	615,000	456,316	1,071,316
2013-2017				2,115,000	1,843,322	3,958,322
2018-2022				1,650,000	1,368,430	3,018,430
2023-2027				2,200,000	813,080	3,013,080
2028-2030				1,660,000	147,434	1,807,434
Total	\$ 1,440,000	\$ 123,513	\$ 1,563,513	\$ 10,430,000	\$ 6,722,375	\$ 17,152,375

General Obligation Bonds - The City of Farmers Branch issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$2,375,000. General obligation bonds are direct obligations and pledge the full faith and credit of the City of Farmers Branch. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year.

Special Revenue Bonds - The City of Farmers Branch has issued special revenue bonds to provide funds for the acquisition and construction of a community ice-skating and conference facility including public parking areas. The original amount of special revenue bonds issued in prior years was \$12,695,000. Special revenue bonds are payable from the hotel occupancy tax and lease payments from the Dallas Stars with any deficiency to be paid from ad valorem taxes.

On November 11, 2006, the City of Farmers Branch defeased the Combination Tax and Revenue Certificates of Obligation Series 2004A. The early redemption amount of \$917,004 was possible due to lower than anticipated construction costs for the community skating/conference facility.

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

Assessment Revenue Refunding Bonds – On September 11, 2007, the City of Farmers Branch retired the Combination Assessment and Utility System Refunding Bond Series 2002. The early redemption amount of \$2,250,280 was possible due to lower than anticipated construction costs for the sewer improvements.

Defeased Bonds Outstanding – During the current year and in prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2007, \$5,055,363 of bonds outstanding is considered defeased.

Developer Advances – The City entered into a development agreement, whereby American Realty Trust, Inc., Income Opportunity Realty Investors, Inc., and Transcontinental Realty Investors, Inc. agreed to advance funds to the City for project construction costs in Tax Increment Financing District No. 1 ("TIF No. 1"). The funds advanced and interest payable may be reimbursed only from the TIF No. 1 fund to the extent such funds are on deposit in the fund. Interest accrues beginning from the date the funds are received by the City. The interest rate is the lower of six percent or the developer's actual cost of funds. This interest is calculated on a simple straight-line basis semiannually on the unpaid balance plus accrued interest to date.

Landfill Closure and Postclosure Costs – The City owns a sanitary landfill site located in the City of Lewisville, Texas. Beginning October 1, 1998, the City entered into a ten-year renewable contract with Allied Waste North America, Inc. ("Allied Waste") for the operation and management of the landfill. During the term of this agreement, Allied Waste will be responsible for contributions to a City-maintained closure/postclosure fund in order to provide resources for these costs.

The landfill operates on a "cell" basis and state and federal laws require the City to close the landfill once its capacity is reached and to monitor and maintain the site for 30 subsequent years. The site capacity of 24.5 million cubic yards will be reached in approximately 26 years. The City recognizes a portion of the final closure and post-closure care liability in each operating period even though actual final payout will not occur until the landfill is completely closed.

The amount recognized as a liability each year to date is based on the landfill capacity used as of the balance sheet date. As of September 30, 2007, the City had incurred a liability of \$13,898,712, which represents the amount of costs estimated to date based on 65.5% of landfill capacity used to date. The remaining estimated liability for these costs is \$7,312,105, which will be recognized as the remaining capacity is used. Additionally, the City has designated \$7,812,147 of special revenue fund balance for future landfill closure costs. The estimated cost of closure and post-closure care are subject to changes such as the effects of inflation, revision of laws, and other variables.

F. Other Information

1) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. The City has established a workers' compensation fund (an internal service fund) to account for workers' compensation uninsured risks of loss. Under this program, the workers' compensation fund provides coverage for up to a maximum of \$350,000 for each workers' compensation occurrence claim.

The costs associated with this self-insurance plan are reported as interfund transactions. Accordingly, they are treated as operating revenues of the workers' compensation fund and operating expenditures (expenses) of the other funds. Claims payable include provisions for claims reported and claims incurred, but not reported. The provision for reported claims is computed by the City's third party administrator based upon standard actuarial principles. The provision for claims incurred, but not yet reported, is estimated based on the City's experience and an actuarial study that was performed during fiscal year 2007. State law provides that the City is relieved of liability if a notice of employee injury has not been received within 30 days of the date on which the injury occurs.

At September 30, 2007, the amount of workers' compensation liabilities was \$372,467. This liability is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability for unpaid claims includes allocated loss adjustment expenses (ALAE), which are primarily legal expenses. Changes in the reported liability since October 1, 2005 resulted from the following:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2005-2006	\$370,020	\$400,949	(\$282,666)	\$488,303
2006-2007	\$488,303	\$ 77,654	(\$193,490)	\$372,467

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

At September 30, 2007, workers' compensation fund cash and investments of \$989,366 were held for the purpose of funding future obligations. The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

2) Commitments and Contingencies

The City has several long-term agreements with significant commitments as follows:

- a. City of Dallas Water Purchase Agreement - The City purchases treated water from the City of Dallas under a 20-year contract negotiated in August 1990. The City makes payments to the City of Dallas at a rate of \$.3477 per 1,000 gallons plus \$168,089 per year for each million gallons per day rate of flow (maximum delivery rate). The City paid \$4,215,899 to the City of Dallas for the fiscal year ended September 30, 2007.
- b. Trinity River Authority (the "Authority") Sewage Disposal Agreement - On November 29, 1973, the City, along with other cities, entered into a 50-year contract with the Authority, whereby the Authority will provide and operate a regional wastewater treatment plant and wastewater conveyance facility constructed with the Authority's funds. In return, the cities agreed to pay for such services based on a usage formula that will provide reimbursements for operations, maintenance, and debt service payments to the Authority. The cities are jointly and severally responsible for the above payments. Each city's proportionate share is determined annually according to its contributing flow to the system. The City paid \$2,205,728 to the Authority for the fiscal year ended September 30, 2007.

The City is involved in various legal actions in which claims of varying amounts are being asserted against the City. The City follows the practice of providing for these claims when a loss is probable and a loss becomes fixed or determinable in amount. In the opinion of City management, these actions will not result in a significant impact on the City's financial position.

The City participates in several federal grant programs that are governed by various rules and regulations of the grantor agencies. Amounts received or receivable from grant agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial. For the year ended September 30, 2007, grant expenditures did not exceed the threshold for the single audit requirement; therefore, a single audit was not performed.

3) Other Postemployment Benefits

The City provides postemployment health care benefits, in accordance with City policy, to all employees who retire from the City at any age with 25 years of service or over 60 years of age with ten years of service. The benefit provided by the City consists of participation in the City's health insurance plan at the same cost as an employee until age 65. The City no longer pays this benefit for employees hired on and after January 1, 2007. Existing employees are subject to vesting requirements. The City finances the plan on a pay-as-you-go basis. For the year ended September 30, 2007, 55 retirees were covered by these benefits. The City paid approximately \$195,650 for postemployment health care.

4) Employee Retirement System

Plan Description - The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 currently administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee's accumulated contributions. Beginning in 1996 the City granted, on an annually repeating basis, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his/her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Additionally initiated in 1996, the City provides, on an annually repeating basis, increases for retirees equal to 70% of the change in the Consumer Price Index (CPI).

Members can retire at ages 60 and above with five or more years of service or with 25 years of service regardless of age. A member is vested after five years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

Contributions - The contribution rate for the employees is 7% and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service cost contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2006 valuation is effective for rates beginning January 2008).

Actuarial Assumptions - The City of Farmers Branch is one of 821 municipalities having the benefit plan administered by TMRS. Each of these municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2006 valuations are contained in the 2006 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153. Significant actuarial assumptions for the City may be found in Exhibit E-1, Required Supplemental Information.

Trend Information - Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information, for which three years is required, is presented as follows:

Three-Year Trend Information for the City of Farmers Branch

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 3,263,314	100%	\$ 0
2006	3,419,541	100%	0
2007	3,614,401	100%	0

Funding Issues and Future Changes in Actuarial and Amortization Methods - Under the unit credit actuarial method, normal cost does not include projected increases in benefits that will occur due to the annually repeating service credits and annuity increases mentioned above. Each year when the updating occurs, the impact of the annual event that relates to years of service already rendered is recorded directly as an increase in actuarial liabilities and is amortized through the prior service contribution rate. The prior service rate is determined using the level percent of payroll, open 25-year amortization method which when combined with the City's assumed future payroll growth produces a prior service contribution that is less than the interest accruing on the unfunded liability (i.e. negative amortization).

Recognizing these issues, TMRS began notifying during the year, those member cities that have adopted annually repeating updated service credits and annuity increases of the need to transition from unit credit to projected unit credit and from open amortization to closed amortization. TMRS has informed the City that if the projected unit credit method, closed amortization and changes to assumptions approved by the TMRS Board for the 2007 valuations had been used for the December 31, 2006 valuation, a significant increase in unfunded actuarially accrued liability could occur.

At the December 8, 2007 TMRS meeting, the TMRS Board formally voted to transition to the projected unit credit closed amortization methodology effective for the December 31, 2007 valuation. This change in actuarial methodology will affect the City's funded status to be reported in our September 30, 2008 financial statements. It will also require a significantly higher rate be paid to TMRS beginning January 1, 2009. The TMRS Board will be determining phasing and other transitional methodology to assist member cities in the future months.

The City has also begun the process of obtaining an actuarial options study for its plan so that the City can implement strategic plan changes that will reduce the required rate under projected unit credit while minimizing the impact to City employees and retirees.

Supplemental three-year trend information may be found in Exhibit E-1.

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

5) New GASB Standards

Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*" This statement establishes standards for the measurement, recognition, and display for postemployment health care and other benefits if provided separately from a pension plan. This statement will become effective for the City in fiscal year 2009. The City has hired an actuarial firm to determine, and potentially mitigate, the impact of this statement.

Statement No. 48, "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.*" This statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. This statement will become effective for the City in fiscal year 2008. Management has not yet determined the impact of this statement on the financial statements.

Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations.*" This statement addresses accounting and financial reporting standards for pollution remediation obligations. This statement will become effective for the City in fiscal year 2009. Management has not yet determined the impact of this statement on the financial statements.

Statement No. 50, "*Pension Disclosures.*" This statement amends statements 25 and 27 to require defined benefit pension plans and sole and agent employers to report certain disclosures in the financial statements. This statement will become effective for the City in fiscal year 2008. Management has not yet determined the impact of this statement on the financial statements.

Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets.*" This statement establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies in reporting of these types of assets. The statement requires that all intangible assets not specifically excluded by its scope and provisions be classified as capital assets. This statement will become effective for the City in fiscal year 2010. Management has not yet determined the impact of this statement on the financial statements.

6) Subsequent Event

On October 18, 2007, the City of Farmers Branch issued Combination Tax and Revenue Certificates of Obligation Series 2007 (CO's) in the amount of \$7,750,000. These CO's will be used for the construction of a new animal shelter and street construction.

REQUIRED SUPPLEMENTAL INFORMATION
 SEPTEMBER 30, 2007
 (UNAUDITED)

Texas Municipal Retirement System Analysis of Funding Progress
 Last Three Fiscal Years

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
2005	12/31/2004	\$ 78,387,767	\$ 97,897,512	\$ 19,509,745	80.1%	\$ 22,254,755	87.7%
2006	12/31/2005	82,581,873	103,607,950	21,026,077	79.7%	22,850,365	92.0%
2007	12/31/2006	84,115,347	107,994,963	23,879,616	77.9%	23,389,294	102.1%

Actuarial Assumptions

Actuarial Cost Method	-	Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Period	-	25 Years - Open Period
Asset Valuation Method	-	Amortized Cost
Investment Rate of Return	-	7%
Projected Salary Increases	-	None
Includes Inflation At	-	3.50%

OTHER SUPPLEMENTAL INFORMATION

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COMBINING FINANCIAL STATEMENTS

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used by the City to account for the accumulation and disbursement of restricted resources. The following is a description of the City's Special Revenue Funds:

Hotel/Motel - to account for receipt and allocation of the City's hotel/motel occupancy tax. Use of this tax is limited by law to the promotion of tourism. The City hotel occupancy tax rate for its twelve hotels is 7%.

Police Forfeitures - to account for proceeds from the sale of assets seized in connection with drug arrests. Revenues are reserved for law enforcement expenditures.

Donations - to account for voluntary contributions for community improvement.

Youth Scholarship - to account for voluntary contributions for youth scholarship.

Grants - to account for grant revenues and expenditures.

Municipal Court Fees - to account for the municipal court building security fee dedicated to courthouse security and the municipal court technology fee for the purchase of technological enhancements.

Stars Center - to account for Stars/Conference Center rental revenues and transfers to debt service for bond payments.

DEBT SERVICE FUND

The Debt Service Fund accounts for the accumulation of resources for, and the payment of, governmental long-term debt principal and interest. The governmental long-term debt serviced by the Debt Service Fund consists of general obligation bonds and special revenue bonds.

CAPITAL PROJECTS FUNDS

The Capital Projects Funds account for all resources used for the acquisition and/or construction of major capital facilities by the City, except those financed by the Enterprise Fund. The following is a description of the City's Capital Projects Funds:

DART Fund - to account for the construction and financing of transit related improvements funded by the Dallas Area Rapid Transit Local Assistance Program.

Hotel/Motel Fund - to account for the construction and financing of historical park improvements, funded by hotel/motel tax revenues.

Water Bonds Fund - to account for the construction of various water facilities and infrastructure, funded by general obligation bonds.

TIF No. 2 District - to account for infrastructure construction in the Old Farmers Branch tax increment financing district, funded from developer contributions and advances and property tax payments.

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COMBINING BALANCE SHEET - SUMMARY
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2007

	Special Revenue Funds	Debt Service Fund	Capital Project Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash, cash equivalents, and investments	\$ 3,751,014	\$ 226,939	\$ 1,212,119	\$ 5,190,072
Receivables, net	284,586	253,941	4,139	542,666
Accrued interest and other	36,398		8,843	45,241
Inventories	4,107			4,107
Total assets	<u>\$ 4,076,105</u>	<u>\$ 480,880</u>	<u>\$ 1,225,101</u>	<u>\$ 5,782,086</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 86,131	\$	\$ 1,195	\$ 87,326
Due to other funds	18,500			18,500
Deposits	424,340			424,340
Deferred revenue	108,566	251,114	382,923	742,603
Advances from other funds			200,000	200,000
Retainage payable			14,576	14,576
Total liabilities	<u>637,537</u>	<u>251,114</u>	<u>598,694</u>	<u>1,487,345</u>
Fund balances:				
Reserved for encumbrances	547,431		128,473	675,904
Reserved for construction			385,392	385,392
Reserved for debt service		229,766		229,766
Reserved for inventory	4,107			4,107
Reserved for law enforcement	595,882			595,882
Unreserved, designated	2,291,148		148,001	2,439,149
Unreserved, undesignated			(35,459)	(35,459)
Total fund balances	<u>3,438,568</u>	<u>229,766</u>	<u>626,407</u>	<u>4,294,741</u>
Total liabilities and fund balances	<u>\$ 4,076,105</u>	<u>\$ 480,880</u>	<u>\$ 1,225,101</u>	<u>\$ 5,782,086</u>

CITY OF FARMERS BRANCH, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS - NONMAJOR SPECIAL REVENUE FUNDS

SEPTEMBER 30, 2007

	Nonmajor Special Revenue Funds				
	Hotel/ Motel	Police Forfeitures	Donations	Youth Scholarship	Grants
ASSETS					
Cash, cash equivalents, and investments	\$ 1,993,203	\$ 320,217	\$ 145,809	\$ 19,648	\$ 73
Receivables, net	234,826				26,774
Accrued interest and other	20,513	2,601	1,254	168	
Inventories	4,107				
Total assets	<u>\$ 2,252,649</u>	<u>\$ 322,818</u>	<u>\$ 147,063</u>	<u>\$ 19,816</u>	<u>\$ 26,847</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 48,412	\$ 5,460	\$ 15,135	\$	\$ 168
Due to other funds					18,500
Deposits	4,340				
Deferred revenue		100,387			8,179
Total liabilities	<u>52,752</u>	<u>105,847</u>	<u>15,135</u>		<u>26,847</u>
Fund balances:					
Reserved for encumbrances	414,120	12,486	1,500		
Reserved for inventory	4,107				
Reserved for law enforcement		204,485			
Unreserved:					
Designated for special purposes	1,781,670		130,428	19,816	
Total fund balances	<u>2,199,897</u>	<u>216,971</u>	<u>131,928</u>	<u>19,816</u>	
Total liabilities and fund balances	<u>\$ 2,252,649</u>	<u>\$ 322,818</u>	<u>\$ 147,063</u>	<u>\$ 19,816</u>	<u>\$ 26,847</u>

Exhibit F-1a

Nonmajor Special Revenue Funds		Total
Municipal	Stars	Nonmajor
Court	Center	Special Revenue
Fees		Funds
\$ 500,380	\$ 771,684	\$ 3,751,014
22,986		284,586
4,312	7,550	36,398
		4,107
<u>\$ 527,678</u>	<u>\$ 779,234</u>	<u>\$ 4,076,105</u>

\$ 16,956	\$	\$ 86,131
		18,500
	420,000	424,340
		108,566
<u>16,956</u>	<u>420,000</u>	<u>637,537</u>

119,325		547,431
		4,107
391,397		595,882
	359,234	2,291,148
<u>510,722</u>	<u>359,234</u>	<u>3,438,568</u>
<u>\$ 527,678</u>	<u>\$ 779,234</u>	<u>\$ 4,076,105</u>

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS - NONMAJOR CAPITAL PROJECTS FUNDS

SEPTEMBER 30, 2007

	Nonmajor Capital Projects Funds			Total Nonmajor Capital Projects Funds
	DART	Hotel/ Motel	TIF No. 2 District	
ASSETS				
Cash, cash equivalents, and investments	\$ 893,605	\$ 153,973	\$ 164,541	\$ 1,212,119
Receivables, net			4,139	4,139
Accrued interest and other	7,315	1,528		8,843
Total assets	<u>\$ 900,920</u>	<u>\$ 155,501</u>	<u>\$ 168,680</u>	<u>\$ 1,225,101</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,195	\$	\$	\$ 1,195
Deferred revenue	378,784		4,139	382,923
Advances from other funds			200,000	200,000
Retainage payable	14,576			14,576
Total liabilities	<u>394,555</u>		<u>204,139</u>	<u>598,694</u>
Fund balances:				
Reserved for:				
Encumbrances	120,973	7,500		128,473
Construction	385,392			385,392
Unreserved:				
Designated for construction		148,001		148,001
Undesignated			(35,459)	(35,459)
Total fund balances	<u>506,365</u>	<u>155,501</u>	<u>(35,459)</u>	<u>626,407</u>
Total liabilities and fund balances	<u>\$ 900,920</u>	<u>\$ 155,501</u>	<u>\$ 168,680</u>	<u>\$ 1,225,101</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - SUMMARY
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Total Nonmajor Governmental Funds
REVENUES				
Property taxes	\$	\$ 3,230,013	\$	\$ 3,230,013
Hotel/motel taxes	2,487,792			2,487,792
Tax increment financing			32,018	32,018
Fines and forfeitures	172,097			172,097
Investment income	853,942		52,158	906,100
Intergovernmental	83,114		960,964	1,044,078
Miscellaneous	113,900			113,900
Total revenues	3,710,845	3,230,013	1,045,140	7,985,998
EXPENDITURES				
Current:				
General government	77,037			77,037
Public safety	247,418			247,418
Culture and recreation	1,291,957			1,291,957
Debt service:				
Principal retirement		3,565,000		3,565,000
Interest and fiscal agent charges		747,375		747,375
Issuance costs		6,000		6,000
Capital outlay			1,019,578	1,019,578
Total expenditures	1,616,412	4,318,375	1,019,578	6,954,365
Excess (deficiency) of revenues over (under) expenditures	2,094,433	(1,088,362)	25,562	1,031,633
OTHER FINANCING SOURCES (USES)				
Transfers in		2,082,259		2,082,259
Transfers out	(2,337,100)		(36,159)	(2,373,259)
Payment to refund bond escrow agent		(917,004)		(917,004)
Total other financing sources (uses)	(2,337,100)	1,165,255	(36,159)	(1,208,004)
Net change in fund balances	(242,667)	76,893	(10,597)	(176,371)
Fund balances--beginning	3,681,235	152,873	637,004	4,471,112
Fund balances--ending	\$ 3,438,568	\$ 229,766	\$ 626,407	\$ 4,294,741

CITY OF FARMERS BRANCH, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS - NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Nonmajor Special Revenue Funds				
	Hotel/ Motel	Police Forfeitures	Donations	Youth Scholarship	Grants
REVENUES					
Hotel/motel taxes	\$ 2,487,792	\$	\$	\$	\$
Fines and forfeitures		49,203			
Investment income	145,561	15,768	7,397	991	
Intergovernmental					83,114
Miscellaneous	9,039		99,241	5,620	
Total revenues	2,642,392	64,971	106,638	6,611	83,114
EXPENDITURES					
General government			77,037		
Public safety		83,981	1,061		68,464
Culture and recreation	1,236,225		37,361	3,220	15,151
Total expenditures	1,236,225	83,981	115,459	3,220	83,615
Excess (deficiency) of revenues over (under) expenditures	1,406,167	(19,010)	(8,821)	3,391	(501)
OTHER FINANCING USES					
Transfers out	(1,699,100)				
Total other financing uses	(1,699,100)				
Net change in fund balances	(292,933)	(19,010)	(8,821)	3,391	(501)
Fund balances--beginning	2,492,830	235,981	140,749	16,425	501
Fund balances--ending	\$ 2,199,897	\$ 216,971	\$ 131,928	\$ 19,816	\$

Exhibit F-2a

Nonmajor Special Revenue Funds		Total
Municipal		Nonmajor
Court	Stars	Special Revenue
Fees	Center	Funds
\$	\$	\$ 2,487,792
122,894		172,097
25,434	658,791	853,942
		83,114
		113,900
148,328	658,791	3,710,845
		77,037
93,912		247,418
		1,291,957
93,912		1,616,412
54,416	658,791	2,094,433
	(638,000)	(2,337,100)
	(638,000)	(2,337,100)
54,416	20,791	(242,667)
456,306	338,443	3,681,235
\$ 510,722	\$ 359,234	\$ 3,438,568

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS - NONMAJOR CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Nonmajor Capital Projects Funds				Total Nonmajor Capital Projects Funds
	DART	Hotel/ Motel	Water Bonds	TIF No. 2 District	
REVENUES					
Tax increment financing	\$	\$	\$	\$ 32,018	\$ 32,018
Investment income	43,145	9,013			52,158
Intergovernmental	960,964				960,964
Total revenues	1,004,109	9,013		32,018	1,045,140
EXPENDITURES					
Capital outlay	960,965	22,500		36,113	1,019,578
Excess (deficiency) of revenues over (under) expenditures	43,144	(13,487)		(4,095)	25,562
OTHER FINANCING SOURCES					
Transfers out			(36,159)		(36,159)
Net change in fund balances	43,144	(13,487)	(36,159)	(4,095)	(10,597)
Fund balances--beginning	463,221	168,988	36,159	(31,364)	637,004
Fund balances--ending	\$ 506,365	\$ 155,501	\$	\$ (35,459)	\$ 626,407

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL:**

General Fund, Special Revenue Funds, and Debt Service Fund

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SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	2007					
	Budgeted Amounts		Actual Amounts	Adjustments	Actual Amounts	Variance with Final Budget -
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	Positive (Negative)
REVENUES						
Property taxes	\$ 14,410,000	\$ 14,410,000	\$ 14,291,800	\$	\$ 14,291,800	\$ (118,200)
Sales and use tax	12,450,000	12,450,000	12,367,492		12,367,492	(82,508)
Franchise taxes	4,608,200	4,523,200	4,649,499		4,649,499	126,299
Licenses and permits	812,000	812,000	847,741		847,741	35,741
Charges for services	4,970,300	4,943,300	4,796,883		4,796,883	(146,417)
Fines and forfeitures	3,884,000	3,069,000	2,616,722		2,616,722	(452,278)
Investment income	928,000	988,000	1,070,033		1,070,033	82,033
Miscellaneous	138,000	138,000	102,480		102,480	(35,520)
Total revenues	42,200,500	41,333,500	40,742,650		40,742,650	(590,850)
EXPENDITURES						
Current:						
General government:						
General contracts	191,000	191,000	179,750	11,250	191,000	
General government	120,200	127,200	92,093		92,093	35,107
City administration	2,215,300	2,639,400	2,741,943	73,579	2,815,522	(176,122)
Communications	450,900	457,400	445,254	1,506	446,760	10,640
Economic development	336,600	390,100	348,153	(4,546)	343,607	46,493
Human resources	759,700	804,300	736,329	344	736,673	67,627
Finance	3,018,300	2,963,300	2,890,593	20,164	2,910,757	52,543
Community services	2,500,800	2,470,300	2,397,030	11,390	2,408,420	61,880
Public safety:						
Police	10,942,500	10,091,600	9,915,589	(49,151)	9,866,438	225,162
Fire	7,023,200	7,152,900	6,886,304	637,616	7,523,920	(371,020)
Public works:						
Public works	5,167,700	5,250,200	4,899,876	204,629	5,104,505	145,695
Engineering	2,237,800	2,347,900	2,266,260	47,478	2,313,738	34,162
Culture and recreation:						
Parks and recreation	8,089,300	8,144,400	7,682,927	69,693	7,752,620	391,780
Library	1,788,300	1,840,400	1,787,974	36,953	1,824,927	15,473
Total expenditures	44,841,600	44,870,400	43,270,075	1,060,905	44,330,980	539,420
Excess (deficiency) of revenues over (under) expenditures	(2,641,100)	(3,536,900)	(2,527,425)	(1,060,905)	(3,588,330)	(51,430)
OTHER FINANCING SOURCES (USES)						
Transfers in	2,633,000	2,633,000	2,637,317		2,637,317	4,317
Transfers out	(4,612,500)	(3,612,500)	(3,612,500)		(3,612,500)	
Sale of capital assets/insurance recoveries	221,500	180,200	313,919		313,919	133,719
Total other financing sources	(1,758,000)	(799,300)	(661,264)		(661,264)	138,036
Net change in fund balance	(4,399,100)	(4,336,200)	(3,188,689)	(1,060,905)	(4,249,594)	86,606
Fund balances--beginning	14,233,988	14,233,988	15,133,701	(899,713)	14,233,988	
Fund balances--ending	\$ 9,834,888	\$ 9,897,788	\$ 11,945,012	\$ (1,960,618)	\$ 9,984,394	\$ 86,606

CITY OF FARMERS BRANCH, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Hotel/Motel			Police Forfeitures		
	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)
REVENUES						
Hotel taxes	\$ 2,300,000	\$ 2,487,792	\$ 187,792	\$	\$	\$
Fines, forfeitures, and assessments				20,000	49,203	29,203
Investment income	135,000	145,561	10,561		15,768	15,768
Intergovernmental						
Donations and miscellaneous	9,300	9,039	(261)			
Total revenues	2,444,300	2,642,392	198,092	20,000	64,971	44,971
EXPENDITURES						
General government						
Public safety				107,400	52,703	54,697
Culture and recreation	1,546,700	1,293,055	253,645			
Total expenditures	1,546,700	1,293,055	253,645	107,400	52,703	54,697
Excess (deficiency) of revenues over (under) expenditures	897,600	1,349,337	451,737	(87,400)	12,268	99,668
OTHER FINANCING USES						
Transfers out	(1,699,100)	(1,699,100)				
Total other financing uses	(1,699,100)	(1,699,100)				
Net change in fund balances	(801,500)	(349,763)	451,737	(87,400)	12,268	99,668
Fund balances--beginning	2,135,540	2,135,540		192,217	192,217	
Fund balances--ending	\$ 1,334,040	\$ 1,785,777	\$ 451,737	\$ 104,817	\$ 204,485	\$ 99,668

Donations			Youth Scholarships		
Revised Budget	Actual Budget Basis	Variance - Positive (Negative)	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
	7,397	7,397		991	991
81,317	99,241	17,924	3,000	5,620	2,620
81,317	106,638	25,321	3,000	6,611	3,611
101,102	77,037	24,065			
6,000	1,061	4,939			
39,800	38,861	939	5,900	3,220	2,680
146,902	116,959	29,943	5,900	3,220	2,680
(65,585)	(10,321)	55,264	(2,900)	3,391	6,291
(65,585)	(10,321)	55,264	(2,900)	3,391	6,291
140,749	140,749		16,425	16,425	
\$ 75,164	\$ 130,428	\$ 55,264	\$ 13,525	\$ 19,816	\$ 6,291

(continued)

CITY OF FARMERS BRANCH, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Grants			Municipal Court Fees		
	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)
REVENUES						
Hotel taxes	\$	\$	\$	\$	\$	\$
Fines, forfeitures, and assessments				146,700	122,894	(23,806)
Investment income					25,434	25,434
Intergovernmental	100,822	83,114	(17,708)			
Donations and miscellaneous						
Total revenues	100,822	83,114	(17,708)	146,700	148,328	1,628
EXPENDITURES						
General government	3,500		3,500			
Public safety	82,100	67,963	14,137	279,720	213,237	66,483
Culture and recreation	15,222	15,151	71			
Total expenditures	100,822	83,114	17,708	279,720	213,237	66,483
Excess (deficiency) of revenues over (under) expenditures				(133,020)	(64,909)	68,111
OTHER FINANCING USES						
Transfers out						
Total other financing uses						
Net change in fund balances				(133,020)	(64,909)	68,111
Fund balances--beginning				456,306	456,306	
Fund balances--ending	\$	\$	\$	\$ 323,286	\$ 391,397	\$ 68,111

Stars Center			Totals		
Revised Budget	Actual Budget Basis	Variance - Positive (Negative)	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)
\$	\$	\$	\$ 2,300,000	\$ 2,487,792	\$ 187,792
			166,700	172,097	5,397
600,000	658,791	58,791	735,000	853,942	118,942
			100,822	83,114	(17,708)
			93,617	113,900	20,283
600,000	658,791	58,791	3,396,139	3,710,845	314,706
			104,602	77,037	27,565
			475,220	334,964	140,256
			1,607,622	1,350,287	257,335
			2,187,444	1,762,288	425,156
600,000	658,791	58,791	1,208,695	1,948,557	739,862
(638,000)	(638,000)		(2,337,100)	(2,337,100)	
(638,000)	(638,000)		(2,337,100)	(2,337,100)	
(38,000)	20,791	58,791	(1,128,405)	(388,543)	739,862
338,443	338,443		3,279,680	3,279,680	
\$ 300,443	\$ 359,234	\$ 58,791	\$ 2,151,275	\$ 2,891,137	\$ 739,862

(concluded)

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 DEBT SERVICE FUND
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)
REVENUES			
Property taxes	\$ 3,249,800	\$ 3,230,013	\$ (19,787)
EXPENDITURES			
Principal retirement	3,565,000	3,565,000	
Interest and fiscal agent charges	764,700	747,375	17,325
Issuance costs	6,000	6,000	
Total expenditures	4,335,700	4,318,375	17,325
Deficiency of revenues under expenditures	(1,085,900)	(1,088,362)	(2,462)
OTHER FINANCING SOURCES (USES)			
Transfers in	2,082,258	2,082,259	(1)
Payment to refund bond escrow agent	(920,200)	(917,004)	3,196
Total other financing sources	1,162,058	1,165,255	3,195
Net change in fund balances	76,158	76,893	735
Fund balances--beginning	152,873	152,873	
Fund balances--ending	\$ 229,031	\$ 229,766	\$ 735

COMBINING FINANCIAL STATEMENTS

INTERNAL SERVICE FUNDS

The Internal Service Funds account for the financing services provided by one department to other departments of the City on a cost reimbursement basis. The following is a description of the City's Internal Service Funds:

Equipment Services Fund - to account for materials and supplies provided exclusively to other funds and departments of the City.

Workers' Compensation Fund - to account for the City's workers' compensation self-insurance program.

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
SEPTEMBER 30, 2007

	Equipment Services	Workers' Compensation	Total
ASSETS			
Current assets:			
Cash, cash equivalents, and investments	\$ 40,993	\$ 989,366	\$ 1,030,359
Receivables, net	1,595		1,595
Inventories and prepayments	73,877		73,877
Deposits		47,000	47,000
Total current assets	116,465	1,036,366	1,152,831
Noncurrent assets:			
Capital assets:			
Nondepreciable	8,170		8,170
Depreciable, net of accumulated depreciation	337,438		337,438
Total noncurrent assets	345,608		345,608
Total assets	462,073	1,036,366	1,498,439
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	93,375	23,112	116,487
Claims payable		149,262	149,262
Compensated absences	30,786		30,786
Total current liabilities	124,161	172,374	296,535
Noncurrent liabilities:			
Claims payable		223,205	223,205
Compensated absences	15,246		15,246
Total noncurrent liabilities	15,246	223,205	238,451
Total liabilities	139,407	395,579	534,986
NET ASSETS			
Invested in capital assets, net of related debt	322,666		322,666
Unrestricted		640,787	640,787
Total net assets	\$ 322,666	\$ 640,787	\$ 963,453

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Equipment Services	Workers' Compensation	Total
Operating revenues			
Charges for services	\$ 2,289,906	\$	\$ 2,289,906
Contributions and miscellaneous		533,821	533,821
Total operating revenues	2,289,906	533,821	2,823,727
Operating expenses			
Personal services	715,980		715,980
Materials and supplies	1,258,535		1,258,535
Maintenance and utilities	215,139		215,139
Insurance claims and expenses		167,082	167,082
Depreciation	19,705		19,705
Total operating expenses	2,209,359	167,082	2,376,441
Operating income	80,547	366,739	447,286
Net assets--beginning	242,119	274,048	516,167
Net assets--ending	\$ 322,666	\$ 640,787	\$ 963,453

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Equipment Services	Workers' Compensation	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from interfund services provided	\$ 2,291,631	\$ 522,821	\$ 2,814,452
Payments to suppliers	(1,417,129)	(45,474)	(1,462,603)
Payments to employees	(812,278)		(812,278)
Payments for loss claims		(282,918)	(282,918)
Net cash provided by operating activities	62,224	194,429	256,653
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(165,503)		(165,503)
Net cash used by capital and related financing activities	(165,503)		(165,503)
Net increase (decrease) in cash and cash equivalents	(103,279)	194,429	91,150
Cash and cash equivalents - beginning of year	144,272	794,937	939,209
Cash and cash equivalents - end of year	\$ 40,993	\$ 989,366	\$ 1,030,359
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 80,547	\$ 366,739	\$ 447,286
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	19,705		19,705
Changes in assets and liabilities:			
Decrease in receivables	1,725		1,725
Decrease in inventories and prepayments	4,458		4,458
Increase in prepaid expenses	(93)		(93)
Increase in deposits		(11,000)	(11,000)
Increase (decrease) in accrued liabilities	48,418	(45,474)	2,944
Decrease in claims payable		(115,836)	(115,836)
Decrease in accrued compensated absences	(92,536)		(92,536)
Net cash provided by operating activities	\$ 62,224	\$ 194,429	\$ 256,653

*STATISTICAL
SECTION*

STATISTICAL SECTION (Unaudited)

The City of Farmers Branch's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

		Page
Financial Trends	These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.	68 - 71
Revenue Capacity	These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	73 - 79
Debt Capacity	These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	80 - 81
Demographic & Economic Indicators	These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	82 - 83
Operating Information	These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	84 - 89

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

NET ASSETS BY COMPONENT
 LAST SIX FISCAL YEARS
 (accrual basis of accounting)
 (UNAUDITED)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Governmental activities:						
Invested in capital assets, net of related debt	\$ 78,568,533	\$ 87,037,971	\$ 90,059,354	\$ 93,781,812	\$ 98,657,412	\$ 99,708,332
Restricted	5,751,791	4,976,354	3,260,438	5,442,628	2,237,530	4,189,986
Unrestricted	30,275,062	22,339,613	20,318,481	16,924,700	17,915,931	15,941,239
Total governmental activities net assets	<u>\$ 114,595,386</u>	<u>\$ 114,353,938</u>	<u>\$ 113,638,273</u>	<u>\$ 116,149,140</u>	<u>\$ 118,810,873</u>	<u>\$ 119,839,557</u>
Business-type activities:						
Invested in capital assets, net of related debt	\$ 40,498,414	\$ 42,643,924	\$ 42,594,070	\$ 42,492,826	\$ 44,402,198	\$ 43,151,947
Restricted	7,189,902	6,218,858	5,612,230	5,294,103	4,926,756	
Unrestricted	11,597,277	9,311,455	8,337,951	8,689,125	12,289,442	17,158,640
Total business-type activities net assets	<u>\$ 59,285,593</u>	<u>\$ 58,174,237</u>	<u>\$ 56,544,251</u>	<u>\$ 56,476,054</u>	<u>\$ 61,618,396</u>	<u>\$ 60,310,587</u>
Primary government:						
Invested in capital assets, net of related debt	\$ 119,066,947	\$ 129,681,895	\$ 132,653,424	\$ 136,274,638	\$ 143,059,610	\$ 142,860,279
Restricted	12,941,693	11,195,212	8,872,668	10,736,731	7,164,286	4,189,986
Unrestricted	41,872,339	31,651,068	28,656,432	25,613,825	30,205,373	33,099,879
Total primary government net assets	<u>\$ 173,880,979</u>	<u>\$ 172,528,175</u>	<u>\$ 170,182,524</u>	<u>\$ 172,625,194</u>	<u>\$ 180,429,269</u>	<u>\$ 180,150,144</u>

Note: The City began to report accrual information when it implemented GASB Standard 34 in fiscal year 2002.

CHANGES IN NET ASSETS
LAST SIX FISCAL YEARS
(accrual basis of accounting)
(UNAUDITED)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Expenses						
Governmental activities:						
General government	\$ 7,685,900	\$ 7,466,295	\$ 7,846,552	\$ 7,797,289	\$ 8,489,684	\$ 12,193,622
Public safety	14,324,462	14,541,067	14,785,034	15,536,770	15,934,442	18,387,710
Public works	10,573,887	11,779,719	11,152,223	10,497,625	11,940,111	10,370,758
Culture and recreation	9,783,696	9,764,220	13,689,052	11,041,720	11,292,821	11,560,372
Interest on long-term debt	1,355,307	1,093,578	978,999	1,240,816	1,353,926	1,386,599
Unallocated depreciation	128,974	138,735	141,602	144,510	166,626	137,656
Total governmental activities expenses	43,852,226	44,783,614	48,593,462	46,258,730	49,177,610	54,036,717
Business-type activities:						
Water and sewer	10,562,202	10,666,145	10,710,107	10,269,021	10,646,221	11,337,031
Public improvement district	379,657	234,163	215,513	222,959	216,572	
Total business-type activities expenses	10,941,859	10,900,308	10,925,620	10,491,980	10,862,793	11,337,031
Total primary government expenses	\$ 54,794,085	\$ 55,683,922	\$ 59,519,082	\$ 56,750,710	\$ 60,040,403	\$ 65,373,748
Program Revenues						
Governmental activities:						
Charges for services						
Public safety	\$ 3,421,521	\$ 3,503,599	\$ 3,978,897	\$ 3,967,328	\$ 3,906,555	\$ 4,035,373
Public works	3,366,695	3,446,822	3,260,049	3,550,264	3,536,009	3,420,085
Other	1,133,799	1,066,920	1,616,740	1,599,155	1,789,155	1,883,712
Operating grants and contributions	106,082	181,750	122,933	64,746	140,829	182,355
Capital grants and contributions	1,449,950	671,174	2,626,760	1,566,453	1,888,355	1,044,978
Total governmental activities program revenues	9,478,047	8,870,265	11,605,379	10,747,946	11,260,903	10,566,503
Business-type activities:						
Charges for services	11,005,950	10,816,097	10,888,765	12,018,005	15,360,543	12,116,611
Capital grants and contributions	708,700	680,244	317,971	185,349	109,804	98,906
Total business-type activities program revenues	11,714,650	11,496,341	11,206,736	12,203,354	15,470,347	12,215,517
Total primary government program revenues	\$ 21,192,697	\$ 20,366,606	\$ 22,812,115	\$ 22,951,300	\$ 26,731,250	\$ 22,782,020
Net (Expense)/Revenue						
Governmental activities	\$ (34,374,179)	\$ (35,913,349)	\$ (36,988,083)	\$ (35,510,784)	\$ (37,916,707)	\$ (43,470,214)
Business-type activities	772,791	596,033	281,116	1,711,374	4,607,554	878,486
Total primary government net expense	\$ (33,601,388)	\$ (35,317,316)	\$ (36,706,967)	\$ (33,799,410)	\$ (33,309,153)	\$ (42,591,728)
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes						
Property taxes, levied for general purposes	\$ 13,105,275	\$ 13,084,066	\$ 12,644,154	\$ 12,866,630	\$ 13,315,728	\$ 14,413,089
Property taxes, levied for debt service	3,533,933	3,302,678	3,348,361	3,496,761	3,223,213	3,247,023
Sales and use taxes	11,556,669	10,048,764	10,277,538	10,789,405	11,240,717	12,367,492
Other taxes	7,789,704	7,317,863	7,215,972	7,121,051	9,545,758	7,873,881
Investment income	1,966,845	1,085,223	757,793	1,720,704	3,225,628	3,487,671
Gain on sale/retirement of capital assets	598,576	(1,138,493)			45,001	212,352
Transfers	1,975,600	1,971,800	2,028,600	2,027,100	(17,605)	2,897,390
Total governmental activities	40,526,602	35,671,901	36,272,418	38,021,651	40,578,440	44,498,898
Business-type activities:						
Investment income	502,281	264,411	117,498	227,204	537,508	760,195
Gain on sale/retirement of capital assets						(49,100)
Transfers	(1,975,600)	(1,971,800)	(2,028,600)	(2,027,100)	17,605	(2,897,390)
Total business-type activities	(1,473,319)	(1,707,389)	(1,911,102)	(1,799,896)	555,113	(2,186,295)
Total primary government	\$ 39,053,283	\$ 33,964,512	\$ 34,361,316	\$ 36,221,755	\$ 41,133,553	\$ 42,312,603
Change in Net Assets						
Governmental activities	\$ 6,152,423	\$ (241,448)	\$ (715,665)	\$ 2,510,867	\$ 2,661,733	\$ 1,028,684
Business-type activities	(700,528)	(1,111,356)	(1,629,986)	(88,522)	5,162,667	(1,307,809)
Total primary government	\$ 5,451,895	\$ (1,352,804)	\$ (2,345,651)	\$ 2,422,345	\$ 7,824,400	\$ (279,125)

Note: The City began to report accrual information when it implemented GASB Standard 34 in fiscal year 2002.

FUND BALANCES, GOVERNMENTAL FUNDS
 LAST SIX FISCAL YEARS
 (modified accrual basis of accounting)
 (UNAUDITED)

	Fiscal Year					
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Fund						
Reserved	\$ 1,290,793	\$ 1,643,908	\$ 1,457,515	\$ 1,043,579	\$ 720,842	\$ 1,656,514
Unreserved	15,289,780	12,298,410	12,143,764	12,084,723	14,412,859	10,288,498
Total general fund	<u>\$ 16,580,573</u>	<u>\$ 13,942,318</u>	<u>\$ 13,601,279</u>	<u>\$ 13,128,302</u>	<u>\$ 15,133,701</u>	<u>\$ 11,945,012</u>
All Other Governmental Funds						
Reserved	\$ 8,436,355	\$ 7,601,946	\$ 6,382,424	\$ 7,519,723	\$ 4,996,494	\$ 9,173,275
Unreserved, reported in:						
Special revenue funds	5,575,458	6,386,566	6,534,419	6,387,656	9,338,014	10,103,295
Capital project funds	19,321,730	14,084,420	13,210,667	12,183,734	8,233,128	7,172,306
Total all other governmental funds	<u>\$ 33,333,543</u>	<u>\$ 28,072,932</u>	<u>\$ 26,127,510</u>	<u>\$ 26,091,113</u>	<u>\$ 22,567,636</u>	<u>\$ 26,448,876</u>

Note: The City began to report accrual information when it implemented GASB Standard 34 in fiscal year 2002.

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
 LAST SIX FISCAL YEARS
 (modified accrual basis of accounting)
 (UNAUDITED)

	Fiscal Year					
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
REVENUES						
Property taxes	\$ 16,799,942	\$ 16,176,029	\$ 15,948,557	\$ 16,283,045	\$ 16,654,207	\$ 17,521,813
Sales and use taxes	11,556,669	10,048,764	10,277,538	10,789,405	11,240,717	12,367,492
Hotel/motel taxes	2,026,831	1,797,279	1,786,530	1,965,693	2,249,499	2,487,792
Franchise taxes	5,008,153	4,622,907	4,577,748	4,401,914	5,846,634	4,649,499
Tax increment financing	769,566	809,087	1,315,748	739,795	727,185	483,258
Licenses and permits	651,010	535,374	679,716	702,623	901,032	847,741
Charges for services	4,535,621	4,689,125	5,003,761	5,474,608	5,521,947	5,575,733
Fines and forfeitures	2,538,801	2,653,967	2,941,491	2,816,349	2,651,545	2,788,819
Investment income	1,966,845	1,085,223	757,793	1,693,480	2,799,628	3,134,483
Intergovernmental	1,481,043	750,456	2,687,914	1,395,173	1,866,433	1,128,092
Miscellaneous	190,948	180,213	355,717	355,518	297,542	216,380
Total revenues	<u>47,525,429</u>	<u>43,348,424</u>	<u>46,332,513</u>	<u>46,617,603</u>	<u>50,756,369</u>	<u>51,201,102</u>
EXPENDITURES						
General government	7,684,132	7,450,269	7,748,593	7,604,968	8,441,567	9,908,182
Public safety	14,073,774	14,412,305	15,989,098	16,344,952	16,216,083	17,049,311
Public works	7,064,397	7,154,373	6,583,462	6,685,000	6,750,691	7,181,345
Culture and recreation	9,330,129	9,488,766	9,475,882	10,143,731	10,606,767	10,762,858
Debt service:						
Principal retirement	2,865,000	3,311,709	3,155,000	3,220,000	3,320,000	3,565,000
Interest and fiscal agent charges	1,209,213	928,393	613,301	961,455	863,056	747,375
Issuance costs		189,949	234,310			6,000
Capital outlay	10,207,546	10,546,677	16,248,988	8,197,375	9,957,833	8,260,060
Total expenditures	<u>52,434,191</u>	<u>53,482,441</u>	<u>60,048,634</u>	<u>53,157,481</u>	<u>56,155,997</u>	<u>57,480,131</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,908,762)</u>	<u>(10,134,017)</u>	<u>(13,716,121)</u>	<u>(6,539,878)</u>	<u>(5,399,628)</u>	<u>(6,279,029)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	6,654,452	5,848,900	4,245,511	4,231,842	4,895,008	10,676,789
Transfers out	(4,678,852)	(3,877,100)	(2,216,911)	(2,204,742)	(2,669,708)	(6,040,076)
Proceeds from developer advances	3,412,307	16,900	253,390	3,849,257	1,398,727	2,937,952
Refunding bonds issued		13,748,662	8,865,000			
Payment to refunded bond escrow agent		(13,535,212)				(917,004)
Discount on refunded bonds		(13,545)	(15,262)			
Sale of capital assets/insurance recoveries	856,229	46,546	297,932	154,147	257,523	313,919
Total other financing sources (uses)	<u>6,244,136</u>	<u>2,235,151</u>	<u>11,429,660</u>	<u>6,030,504</u>	<u>3,881,550</u>	<u>6,971,580</u>
Net change in fund balances	1,335,374	(7,898,866)	(2,286,461)	(509,374)	(1,518,078)	692,551
Debt service as a percentage of noncapital expenditures	9.68%	9.86%	8.42%	9.59%	9.16%	8.40%

Note: The City began to report accrual information when it implemented GASB Standard 34 in fiscal year 2002.

CITY OF FARMERS BRANCH, TEXAS

ESTIMATED ACTUAL AND ASSESSED VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	RESIDENTIAL PROPERTY			COMMERCIAL PROPERTY		
	ESTIMATED	LESS:	ASSESSED	ESTIMATED	LESS:	ASSESSED
	ACTUAL	TAX		ACTUAL	TAX	
	VALUE	EXEMPTIONS	VALUE	VALUE	EXEMPTIONS	VALUE
1998	\$ 728,410,780	\$ 229,387,447	\$ 499,023,333	\$ 1,530,991,750	\$ 160,320,914	\$ 1,370,670,836
1999	749,265,380	235,606,383	513,658,997	1,797,666,250	185,591,140	1,612,075,110
2000	794,049,730	252,868,204	541,181,526	2,026,248,010	343,216,122	1,683,031,888
2001	852,916,320	270,695,268	582,221,052	2,170,333,000	397,470,026	1,772,862,974
2002	915,596,290	286,941,475	628,654,815	2,305,524,720	435,616,814	1,869,907,906
2003	1,022,865,830	327,966,324	694,899,506	2,295,268,480	531,261,544	1,764,006,936
2004	1,072,890,000	330,068,183	742,821,817	2,102,559,690	506,450,763	1,596,108,927
2005	1,099,799,270	324,929,103	774,870,167	1,830,594,430	372,949,338	1,457,645,092
2006	1,145,354,860	330,535,831	814,819,029	2,050,631,160	512,078,808	1,538,552,352
2007	1,154,512,990	328,858,113	825,654,877	2,230,116,920	461,723,606	1,768,393,314

Source: Dallas Central Appraisal District

Note: Property in the city is reassessed at least every three years. Property is assessed at actual value; therefore, the assessed values are equal to actual value less exemptions. Tax rates are per \$100 of assessed value.

TABLE 5

BUSINESS-PERSONAL PROPERTY			TOTAL			TOTAL DIRECT TAX RATE
ESTIMATED	LESS:	ASSESSED VALUE	ESTIMATED	LESS:	ASSESSED VALUE	
ACTUAL	TAX		ACTUAL	TAX		
VALUE	EXEMPTIONS		VALUE	EXEMPTIONS		
\$ 1,185,011,980	\$ 644,440	\$ 1,184,367,540	\$ 3,444,414,510	\$ 390,352,801	\$ 3,054,061,709	\$ 0.4400
1,227,591,930	982,330	1,226,609,600	3,774,523,560	422,179,853	3,352,343,707	0.4400
1,323,067,500	4,058,356	1,319,009,144	4,143,365,240	600,142,682	3,543,222,558	0.4400
1,336,074,950	2,707,827	1,333,367,123	4,359,324,270	670,873,121	3,688,451,149	0.4400
1,414,502,690	1,964,435	1,412,538,255	4,635,623,700	724,522,724	3,911,100,976	0.4400
1,328,059,140	1,676,856	1,326,382,284	4,646,193,450	860,904,724	3,785,288,726	0.4400
1,221,611,230	2,329,581	1,219,281,649	4,397,060,920	838,848,527	3,558,212,393	0.4600
1,098,180,490	77,069,672	1,021,110,818	4,028,574,190	774,948,113	3,253,626,077	0.4945
1,061,094,740	116,725,093	944,369,647	4,257,080,760	959,339,732	3,297,741,028	0.4945
1,009,905,870	98,298,591	911,607,279	4,394,535,780	888,880,310	3,505,655,470	0.4945

CITY OF FARMERS BRANCH, TEXAS

DIRECT AND OVERLAPPING PROPERTY TAX RATES
(PER \$100 OF ASSESSED VALUE)
LAST TEN FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	CITY DIRECT RATES			OVERLAPPING RATES (1)				
	GENERAL			CARROLLTON - FARMERS BRANCH I.S.D.	DALLAS I.S.D.	DALLAS COUNTY	DALLAS COUNTY HOSPITAL	DALLAS COUNTY COMMUNITY COLLEGE
	BASIC RATE	OBLIGATION DEBT SERVICE	TOTAL DIRECT (2)					
1998	\$ 0.3110	\$ 0.1290	\$ 0.4400	\$ 1.4961	\$ 1.4605	\$ 0.2073	\$ 0.1858	\$ 0.0500
1999	0.3277	0.1123	0.4400	1.5377	1.4605	0.2032	0.1799	0.0500
2000	0.3352	0.1048	0.4400	1.6137	1.4605	0.2017	0.1960	0.0500
2001	0.3414	0.0986	0.4400	1.6737	1.5475	0.2017	0.2540	0.0500
2002	0.3486	0.0914	0.4400	1.7242	1.5475	0.2015	0.2540	0.0600
2003	0.3511	0.0889	0.4400	1.7224	1.5875	0.2015	0.2540	0.0600
2004	0.3670	0.0930	0.4600	1.7358	1.6395	0.2094	0.2540	0.0778
2005	0.3965	0.0980	0.4945	1.7824	1.6694	0.2094	0.2540	0.0803
2006	0.3985	0.0960	0.4945	1.8259	1.6884	0.2192	0.2540	0.0816
2007	0.4041	0.0904	0.4945	1.6830	1.5026	0.2189	0.2540	0.0810

Source: Dallas Central Appraisal District

Notes:

- (1) Overlapping rates are those of local and county governments that apply to property owners within the City of Farmers Branch. Not all overlapping rates apply to all city property owners; for example, although the county property tax rates apply to all city property owners, the Dallas Independent School District (ISD) rates apply only to the approximately 23.3% of city property owners whose property is located within that district's geographic boundaries.
- (2) The City's basic property tax rate may be increased only by a majority vote of the City Council up to the limits of State law, after which the city's residents may petition for a vote. Rates for debt service are set based on each year's requirements.
- (3) Does not include Dallas ISD as school districts do not overlap each other.

TABLE 6

TOTAL (3)

\$	2.3792
	2.4108
	2.5014
	2.6194
	2.6797
	2.6779
	2.7370
	2.8206
	2.8752
	2.7314

CITY OF FARMERS BRANCH, TEXAS

DIRECT AND OVERLAPPING PROPERTY TAX LEVIES
LAST TEN FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	FARMERS BRANCH	CARROLLTON- FARMERS BRANCH I.S.D.	DALLAS I.S.D.	DALLAS COUNTY
1998	\$ 13,437,872	\$ 152,880,860	\$ 650,103,301	\$ 198,582,049
1999	14,750,312	156,346,660	648,058,222	196,438,846
2000	15,590,179	181,588,620	714,304,951	214,152,276
2001	16,229,185	207,702,320	814,504,457	229,881,236
2002	17,208,844	228,677,587	879,160,759	249,177,867
2003	16,655,270	234,702,492	925,488,279	258,759,275
2004	16,367,777	224,290,076	947,346,797	267,269,899
2005	16,089,181	221,371,359	983,293,871	271,367,179
2006	16,307,329	230,386,930	1,044,465,976	296,814,473
2007	17,335,466	222,194,231	1,031,420,904	320,339,291

Source: Dallas Central Appraisal District

TABLE 7

DALLAS COUNTY HOSPITAL		DALLAS COUNTY COMMUNITY COLLEGE	
<hr/>		<hr/>	
\$	175,771,715	\$	49,958,604
	190,828,377		49,769,926
	209,177,130		54,583,760
	289,535,888		58,700,680
	314,100,139		76,722,430
	326,177,945		79,860,112
	324,257,520		103,074,389
	329,228,427		107,927,170
	343,936,479		114,768,496
	371,647,072		122,966,354

PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
(UNAUDITED)

TAXPAYER	2007			1998		
	TAXABLE ASSESSED VALUE	RANK	PERCENTAGE OF TOTAL CITY TAXABLE ASSESSED VALUE (a)	TAXABLE ASSESSED VALUE	RANK	PERCENTAGE OF TOTAL CITY TAXABLE ASSESSED VALUE (b)
Southwestern Bell/Cingular	\$ 90,993,790	1	2.60%	\$ 63,023,460	2	2.06%
Prentiss Properties Real	84,180,030	2	2.40%	38,678,470	6	1.27%
Providence Towers Dallas	77,061,010	3	2.20%	56,497,180	4	1.85%
Dallas Semiconductor	72,256,375	4	2.06%	91,666,840	1	3.00%
Occidental Chemical Tower Corp.	63,680,980	5	1.82%	60,045,800	3	1.97%
Quebecor Printing Inc.	51,422,550	6	1.47%	31,679,030	9	1.04%
Daltex Centre LP	42,177,340	7	1.20%			
Glazers	40,851,720	8	1.17%			
Tuesday Morning PS Ltd	33,740,017	9	0.96%			
Castle Dallas LLP	30,879,130	10	0.88%			
Blue Lake				47,045,100	5	1.54%
IBM				36,635,240	7	1.20%
Sysco Food Inc.				35,166,690	8	1.15%
PL Properties Associated LP				29,258,360	10	0.96%
	<u>\$ 587,242,942</u>		<u>16.75%</u>	<u>\$ 489,696,170</u>		<u>16.04%</u>

Source: Dallas County, "City Report of Property Value," City of Farmers Branch

Note:

(a) Total taxable value October 1, 2006 is \$3,505,655,470.

(b) Total taxable value October 1, 1997 is \$3,054,061,709.

PROPERTY TAX LEVIES AND COLLECTIONS
 LAST SIX FISCAL YEARS
 (UNAUDITED)

FISCAL YEAR	ACTUAL LEVY YEAR	TAXES LEVIED FOR THE FISCAL YEAR	(1)	COLLECTED WITHIN THE FISCAL YEAR OF THE LEVY				COLLECTIONS IN SUBSEQUENT YEARS	TOTAL COLLECTIONS TO DATE	
				CURRENT TAX COLLECTIONS	(2)	PERCENT OF LEVY COLLECTED	(3)		TOTAL TAX COLLECTIONS	PERCENT OF TOTAL TAX COLLECTIONS TO TAX LEVY
2002	2001	\$ 17,208,844		\$ 16,865,453		98.00%		\$ 64,205	\$ 16,929,658	98.38%
2003	2002	16,655,270		16,194,052		97.23%		120,672	16,314,724	97.96%
2004	2003	16,367,777		15,742,089		96.18%		109,768	15,851,857	96.85%
2005	2004	16,089,181		16,041,941		99.71%		122,403	16,164,344	100.47%
2006	2005	16,307,329		16,410,700		100.63%		81,480	16,492,180	101.13%
2007	2006	17,335,466		17,306,192		99.83%			17,306,192	99.83%

Source: Dallas County Tax Office

Notes:

- (1) The original levy is as of July of the previous fiscal year and does not include any subsequent adjustments.
 (2) Collections are based on adjusted levy which may be higher or lower than original levy.
 (3) Percent is based on original levy which may be higher or lower than percent of adjusted levy.

RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT	PERCENTAGE OF MONEY INCOME (1)	PER CAPITA (1)
	GENERAL OBLIGATION BONDS	SPECIAL REVENUE BONDS	DEVELOPER ADVANCES	WATER REVENUE BONDS	ASSESSMENT REVENUE BONDS			
1998	\$ 25,970,000	\$	\$	\$ 935,000	\$ 10,340,000	\$ 37,245,000	8.18%	\$ 1,400
1999	23,585,000	4,800,000		640,000	9,945,000	38,970,000	8.46%	1,449
2000	21,130,000	4,610,000		330,000	6,215,000	32,285,000	6.85%	1,174
2001	18,590,000	4,380,000			5,780,000	28,750,000	6.10%	1,045
2002	15,970,000	4,135,000	3,412,307		5,325,000	28,842,307	4.18%	1,041
2003	13,524,233	3,880,000	3,162,498		4,209,292	24,776,023	3.55%	885
2004	10,582,657	12,475,000	3,415,888		3,734,392	30,207,937	4.42%	1,102
2005	7,591,081	12,190,000	7,265,145		3,245,000	30,291,226	4.40%	1,098
2006	4,539,505	11,865,000	8,663,872		2,745,000	27,813,377	4.01%	999
2007	1,440,000	10,430,000	11,601,824			23,471,824	3.30%	824

Notes:

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See Table 13 for population data and money income.

RATIO OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	GOVERNMENTAL ACTIVITIES		TOTAL	PERCENTAGE OF ACTUAL TAXABLE VALUE OF PROPERTY (1)	PER CAPITA (2)
	GENERAL OBLIGATION BONDS	SPECIAL REVENUE BONDS			
1998	\$ 25,970,000	\$	\$ 25,970,000	0.85%	\$ 976
1999	23,585,000	4,800,000	28,385,000	0.85%	1,055
2000	21,130,000	4,610,000	25,740,000	0.73%	936
2001	18,590,000	4,380,000	22,970,000	0.62%	835
2002	15,970,000	4,135,000	20,105,000	0.51%	726
2003	13,524,233	3,880,000	17,404,233	0.46%	622
2004	10,582,657	12,475,000	23,057,657	0.65%	842
2005	7,591,081	12,190,000	19,781,081	0.61%	717
2006	4,539,505	11,865,000	16,404,505	0.50%	589
2007	1,440,000	10,430,000	11,870,000	0.34%	416

Notes:

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See Schedule Table 5 for taxable value of property data.

(2) See Schedule Table 13 for population data and money income.

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
 SEPTEMBER 30, 2007
 (UNAUDITED)

GOVERNMENTAL UNIT	DEBT OUTSTANDING	ESTIMATED PERCENTAGE OVERLAPPING	ESTIMATED SHARE OF OVERLAPPING DEBT
Debt repaid with property taxes			
Carrollton - Farmers Branch Independent School District	\$ 406,026,672	22.77%	\$ 92,452,273
Valwood Improvement Authority	11,735,904	33.60%	3,943,264
Dallas County	186,401,552	2.40%	4,473,637
Dallas County Community College District	93,485,000	2.40%	2,243,640
Dallas Independent School District	1,471,980,000	2.44%	35,916,312
Subtotal, overlapping debt	2,169,629,128		139,029,126
City direct debt (1)	7,391,122	100.00%	7,391,122
Total direct and overlapping bonded debt	<u>\$ 2,177,020,250</u>		<u>\$ 146,420,248</u>
Ratio of overlapping bonded debt to taxable assessed valuation (valued at 100% of market value)			
		<u>4.18%</u>	
Per capita overlapping bonded debt			
		<u>\$ 5,138</u>	(2)

Source: Municipal Advisory Council of Texas

Notes:

- (1) The City direct debt includes Combination Tax and Hotel Occupancy Tax Certificates of Obligation, Series 1999, in the amount of \$4,800,000, which are being paid from hotel occupancy tax revenues and Combination Tax and Revenue Certificates of Obligation, Taxable Series 2004, in the amount of \$7,895,000, which are being paid from amounts received under the Ground Lease Agreement (the "Lease") entered into by the City and the Dallas Stars, L.P.
- (2) Based on North Central Texas Council of Governments population estimate.

DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	ESTIMATED POPULATION (1)	LABOR FORCE (2)	UNEMPLOYMENT RATE % (2)	INCOME PER CAPITA (3)	MONEY INCOME (4)
1998	26,600	17,084	3.2%	\$ 17,122	\$ 455,445,200
1999	26,900	17,174	3.0%	17,122	460,581,800
2000	27,508	17,457	3.1%	17,122	470,991,976
2001	27,508	17,948	5.2%	17,122	470,991,976
2002	27,700	17,735	6.5%	24,921	690,311,700
2003	28,000	17,396	6.5%	24,921	697,788,000
2004	27,400	17,076	5.5%	24,921	682,835,400
2005	27,595	15,282	5.3%	24,921	687,694,995
2006	27,850	15,331	4.4%	24,921	694,049,850
2007	28,500	14,935	3.7%	24,921	710,248,500

Sources:

- (1) Estimates provided by North Central Texas Council of Governments with exception of fiscal years 2000 and 2001, which are based on the 2000 Census.
 (2) Labor force and unemployment rate figures are estimates for the City of Farmers Branch civilian labor force as of September and is provided by the Texas Workforce Commission.
 (3) Income Per Capita information is provided by the U.S. Bureau of the Census and is based on the most current census at the time of its availability.
 (4) Money income is derived by multiplying per capita income by the estimated population.

The following information is provided by the North Central Texas Council of Governments based on 2000 census information.

Households:	9,766	Male:	13,849
Families:	6,938	Female:	13,659

Racial Breakdown

White	21,560
Black	661
American Indian	150
Asian or Pacific Islander	813
Other	4,324

* Nativity

Born in State	13,628
Born Out-of-State	7,301
Foreign Born	7,125
Born Abroad or in Outlying Areas	271

Source: North Central Texas Council of Governments

* The figures presented may total more than the population because individuals may report more than one (single or multiple) ancestry.

PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO
(UNAUDITED)

EMPLOYER	2007			1998		
	EMPLOYEES	RANK	PERCENTAGE OF TOTAL CITY EMPLOYMENT	EMPLOYEES	RANK	PERCENTAGE OF TOTAL CITY EMPLOYMENT
IBM Corporation	2,928	1	3.90%	5,465	1	8.67%
JPMorgan Investment Services	2,390	2	3.19%			
Dallas Semiconductor	1,352	3	1.80%	1,400	2	2.22%
Federal Government - Internal Revenue Service	1,200	4	1.60%	1,200	3	1.90%
Brookhaven College				1,181	4	1.87%
GEICO	1,200	5	1.60%	1,030	5	1.63%
Tuesday Morning	1,000	6	1.33%			
Cingular Wireless	830	7	1.11%			
TD Industries	811	8	1.08%	1,000	6	1.59%
Essilor Labs of America	751	9	1.00%			
Celanese Corporation	700	10	0.93%			
Fannie Mae						
Glazer's						
Occidental Chemical				950	7	1.51%
Sprint Communications Company				800	8	1.27%
Stream International				800	9	1.27%
Sysco Food Systems				730	10	1.19%
Sea-Land Service, Inc.						
	<u>13,162</u>		<u>17.55%</u>	<u>14,556</u>		<u>23.11%</u>

Source:

City of Farmers Branch Economic Development Department and the North Central Texas Council of Governments (NCTCOG) website. The NCTCOG website provided the total employment for the 5-year periods of 1995 and 2000. The 1997 total employment of 63,066 was derived by prorating the change between 1995 and 2000. The most recent total employment data available is for 2000 in the amount of 75,013. This amount was used for 2007 total employment.

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
 LAST SIX FISCAL YEARS
 (UNAUDITED)

Function/Program	Full-time Equivalent Employees as of September 30					
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General government	71.40	68.08	66.02	64.52	73.63	76.89
General administration	9.25	8.50	8.50	8.50	7.50	6.50
Convention	0.30	0.00	0.00	0.00	0.00	0.00
Communications	5.10	5.10	4.16	4.16	4.22	4.22
Economic development	2.00	2.00	2.00	1.00	1.00	3.00
Human resources	8.00	7.00	7.00	7.00	7.00	7.19
Finance	20.00	18.50	18.50	19.00	29.00	29.00
Community services	26.63	26.63	25.63	24.63	24.70	26.75
Other	0.12	0.35	0.23	0.23	0.21	0.23
Public safety	185.61	185.26	187.46	187.74	177.02	185.19
Police	117.81	117.81	119.81	120.31	109.81	109.95
Fire	66.00	64.00	64.00	64.22	64.28	72.00
Other	1.80	3.45	3.65	3.21	2.93	3.24
Public works	71.56	69.03	62.03	61.03	57.94	57.34
Engineering	22.00	22.00	19.00	18.00	18.00	18.00
Public works	45.00	43.00	39.00	39.00	36.27	35.27
Other	4.56	4.03	4.03	4.03	3.68	4.07
Culture and recreation	133.79	127.22	124.68	128.56	130.34	132.34
Parks	102.17	99.67	98.12	101.93	101.93	101.93
Library	24.93	23.18	22.93	23.00	25.00	26.75
Tourism	3.82	2.07	1.07	1.07	1.07	1.07
Other	2.88	2.30	2.56	2.56	2.34	2.59
Water and sewer	31.00	31.00	30.00	30.00	27.00	27.00
Water and sewer	31.00	31.00	30.00	30.00	27.00	27.00
Equipment services	2.64	1.36	1.46	1.46	1.34	1.48
Equipment services	2.64	1.36	1.46	1.46	1.34	1.48
Total	496.00	481.95	471.65	473.31	467.27	480.24

Source: Finance Department

Note: Information prior to fiscal year 2002 is not available.

SCHEDULE OF INSURANCE POLICIES IN FORCE
 SEPTEMBER 30, 2007
 (UNAUDITED)

POLICY ISSUED BY	AM BEST RATING	POLICY NUMBER	POLICY PERIOD	COVERAGE	DEDUCTIBLES	LIABILITY LIMITS
Texas Municipal League Intergovernment Risk Pool	A++	04687	10/1/2006 9/30/2007	General Liability	\$ 50,000	\$ 2,000,000
				Property	5,000	64,847,115
				Auto Liability	25,000	1,000,000
				Auto Physical Damage	2,500	Actual Cash Value
				Law Enforcement Liability	25,000	1,000,000
				Errors & Omissions	50,000	1,000,000
				Mobile Equipment	5,000	1,294,520
				Boiler & Machinery	5,000	8,000,000
				Employee Fidelity Bond	2,500	250,000
				Workers' Compensation	N/A	350,000 *(SIR)
				Animal Mortality (K-9)	25 / 50	8,000
The Hartford Casualty Insurance Company	A+	61BSBDB6431	10/1/2006 9/30/2007	Fidelity Bond for Finance Director	2,500	250,000
Great American Excess & Surplus Insurance Company	A++	BTA5279922	10/1/2006 9/30/2007	Underground Storage Tank	10,000	1,000,000

NOTES: Claims Administrators - Workers' Compensation, TML Claims, 18601 LBJ Freeway, Suite 210, Town East Tower, Mesquite, Texas 75150.

*(SIR) "Self Insured Retention"

Source: City of Farmers Branch Risk Manager

CITY OF FARMERS BRANCH, TEXAS

OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
(UNAUDITED)

		Fiscal Year				
		<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Public safety						
Police						
Number of employees	(1)	100	109	113	113	114
Number of sworn officers		71	74	73	73	73
Number of violations (citations)		25,199	29,502	26,127	33,309	36,539
Fire						
Number of employees		67	64	64	64	64
Number of EMS runs		1,992	2,707	2,199	2,169	2,048
Number of fire runs		3,814	3,738	3,704	3,688	3,596
Public works						
Street reconstruction (lane-miles)		1.0	2.0	2.0	0.7	0.6
Street resurfacing (lane-miles)		18.0	14.0		12.0	18.0
Culture and recreation						
Parks						
Recreation memberships sold (basic)	(2)					
Recreation memberships sold (fitness)	(2)					
Total pool admissions		N/A	N/A	21,100	28,369	22,792
Visits to Historical Park		N/A	N/A	N/A	29,520	49,493
Library						
Volumes borrowed		241,928	223,198	239,127	255,345	305,218
Volumes in library collection		96,532	100,977	97,170	94,245	98,462
Water and sewer						
Average daily water consumption (thousands of gallons)		9,673	8,861	10,380	9,497	8,620
Number of water consumers		9,214	9,307	9,398	9,405	9,433

Sources: Various city departments.

Notes: N/A - data unavailable at time of publication.

(1) The municipal court was moved to the Finance Department in fiscal year 2006.

(2) The recreation center was out of service from December 2002 until January 2004 while a new facility was being constructed. Prior to January 2004, the city did not sell memberships to the recreation center.

TABLE 16

Fiscal Year				
<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
114	116.5	117	107	110
74	74	74	74	74
40,466	29,308	23,207	19,091	20,424
64	64	64	65	72
1,999	1,912	2,083	1,994	2,114
3,508	3,302	3,113	3,071	1,445
0.8	1.0	1.2	1.0	5.0
15.0	11.0	11.0	11.0	11.0
		1,409	2,364	1,338
		894	1,771	709
25,499	19,537	16,757	16,835	14,355
47,947	51,106	49,706	48,293	45,216
400,687	428,820	428,096	451,295	431,167
97,499	101,156	104,018	111,617	119,347
8,833	7,856	8,083	9,655	8,423
9,467	9,442	9,444	9,490	7,525

CITY OF FARMERS BRANCH, TEXAS

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
(UNAUDITED)

	Fiscal Year				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Public safety					
Police stations	1	1	1	1	1
Patrol units	14	14	14	14	14
Fire stations	2	2	2	2	2
Public works					
Streets (lane miles)	375	378	378	378	378
Traffic signals	50	50	50	50	49
Landfill capacity (million cubic yards)	24.5	24.5	24.5	24.5	24.5
Culture and recreation					
Acreage	400	400	400	400	400
Parks	28	28	28	28	28
Playgrounds	N/A	N/A	N/A	N/A	12
Swimming pool	1	1	1	1	1
Recreation center	1	1	1	1	1
Senior center	1	1	1	1	1
Library	1	1	1	1	1
Historical park	1	1	1	1	1
Utilities					
Water mains (miles)	168.3	168.9	169.0	169.5	170.8
Fire hydrants	1,794	1,806	1,831	1,839	1,857
Storage capacity (millions of gallons)	20.0	20.0	20.0	19.5	19.5
Sanitary sewers (miles)	136.6	137.4	137.8	138.2	139.2
Storm sewers (miles)	100	100	100	100	101

Sources: Various city departments.

Note: No capital asset indicators are available for the general government or library function.

TABLE 17

Fiscal Year				
<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
1	1	1	1	1
14	14	14	15	15
2	2	2	2	2
378	398	398	398	405
49	49	49	52	54
24.5	24.5	24.5	24.5	24.5
400	400	400	400	387
28	28	28	28	26
12	12	12	12	13
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
170.8	171.0	171.0	171.0	173.4
1,859	1,861	1,864	1,864	1,899
19.5	21.5	21.5	21.5	21.5
139.2	139.2	139.2	139.2	140.8
101	101	101	101	103

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*CONTINUING FINANCIAL
DISCLOSURE SECTION*

CONTINUING FINANCIAL DISCLOSURE SECTION

(Unaudited)

The Continuing Financial Disclosure Section presents various financial data originally distributed in a debt official statement. The city is required to update financial tables originally distributed in a debt official statement within six months after the end of the fiscal year ending on or after September 30, 1999. The financial tables that follow are updated through September 30, 2007, from the last debt issues that were sold July of 1999. This financial information is also sent to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the Securities and Exchange Commission ("SEC").

VALUATIONS, EXEMPTIONS, AND GENERAL OBLIGATION DEBT
(UNAUDITED)

2007/2008 Market Valuation Established by DCAD		\$ 4,884,760,920
(excluding totally exempt property)		
Less Exemptions/Reductions at 100% Market Value:		
Totally Exempt Parcels	\$ 231,007,970	
Tax Abatements	371,566,057	
Homestead	193,347,368	
Over 65	129,942,924	
Freeport	128,011,886	
Capped Value Loss	3,486,604	
Disabled Persons	5,667,160	
Disabled Veterans	1,263,620	
Poll Cntl	1,032,594	
Under 500	35,360	
Mineral Rights	1,400	
Total Exemptions		<u>1,065,362,943</u>
2007/2008 Net Taxable Assessed Valuation		<u>\$ 3,819,397,977</u>
City Funded Debt Payable From Ad Valorem Taxes		
Outstanding General Obligation Debt	\$ 1,440,000	
Certificates of Obligation	2,710,000	
Series 2004 Taxable Certificates	<u>7,720,000</u>	
City Funded Debt Payable from Ad Valorem Taxes		\$ 11,870,000
Less: Self Supporting Debt (Certificates of Obligation)	(1)	2,710,000
Series 2004 Taxable Certificates	(2)	<u>7,720,000</u>
Net General Obligation Debt Payable from Ad Valorem Taxes		<u>\$ 1,440,000</u>
General Obligation Interest and Sinking Fund		229,766
Ratio of Gross General Obligation Tax Debt to Taxable Assessed Valuation		0.311%
Ratio of Net General Obligation Tax Debt to Taxable Assessed Valuation		0.038%

2007 Estimated Population - 28,500

Per Capita Taxable Assessed Valuation - \$134,014

Per Capita Funded Debt Payable from Ad Valorem Taxes - \$51

- (1) Self Supporting Debt consists of the City's Combination Tax and Hotel Occupancy Tax Certificates of Obligation, Series 1999, which are being paid from hotel occupancy tax revenues. The City could discontinue its policy of paying such debt from hotel tax receipts, and, in lieu thereof levy an ad valorem tax or use other lawfully available funds to pay such obligations.
- (2) The City believes the Series 2004 Taxable Certificates will be self-supporting based upon amounts to be received under the Ground Lease Agreement (the "Lease") entered into by the City and the Dallas Stars, L.P., a Delaware Limited Partnership, with respect to the Facility. Payments under the Lease are not pledged to the payment of the 2004 Taxable Certificates. If the City determines not to use payments under the Lease, or if such amounts are insufficient to pay debt service on the 2004 Taxable Certificates, the City will be required to levy an ad valorem tax to pay such obligations.

TAXABLE ASSESSED VALUATIONS BY CATEGORY
(UNAUDITED)

	2008		2007		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single Family	\$ 1,187,126,940	24.31%	\$ 1,148,704,570	26.14%	\$ 1,139,792,540	26.77%
Real, Residential, Multi-Family	139,565,240	2.86%	113,458,300	2.58%	99,053,820	2.33%
Real, Vacant Lots/Tracts	137,782,490	2.82%	169,223,190	3.85%	140,287,090	3.30%
Real, Commercial	2,292,038,100	46.92%	1,926,143,250	43.83%	1,792,442,010	42.10%
Real, Industrial	24,862,790	0.51%	20,850,330	0.47%	18,148,400	0.43%
Real, Oil, Gas, and Other Mineral Reserves	1,400	0.00%	800	0.00%	800	0.00%
Real, Non-Producing Minerals		0.00%	600	0.00%	600	0.00%
Real and Tangible Personal, Utilities	110,857,310	2.27%	123,727,260	2.81%	170,512,140	4.01%
Tangible Personal, Commercial	815,986,150	16.70%	688,795,260	15.67%	643,301,960	15.11%
Tangible Personal, Industrial	176,540,500	3.61%	203,632,220	4.63%	253,541,400	5.96%
Total Appraised Value Before Exemptions	4,884,760,920	100.00%	4,394,535,780	100.00%	4,257,080,760	100.00%
Less: Total Exemptions/Reductions	1,065,362,943		888,880,310		959,339,732	
Taxable Assessed Value	<u>\$ 3,819,397,977</u>		<u>\$ 3,505,655,470</u>		<u>\$ 3,297,741,028</u>	

	2005		2004	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single Family	\$ 1,094,238,150	27.16%	\$ 1,067,323,700	24.27%
Real, Residential, Multi-Family	101,827,920	2.53%	95,493,350	2.17%
Real, Vacant Lots/Tracts	94,049,770	2.33%	156,556,220	3.56%
Real, Commercial	1,616,208,860	40.12%	1,831,436,620	41.65%
Real, Industrial	18,262,680	0.45%	19,046,140	0.43%
Real, Oil, Gas, and Other Mineral Reserves	800	0.00%	800	0.00%
Real, Non-Producing Minerals	700	0.00%	700	0.00%
Real and Tangible Personal, Utilities	127,695,500	3.17%	150,718,140	3.43%
Tangible Personal, Commercial	706,858,590	17.55%	756,525,850	17.21%
Tangible Personal, Industrial	269,431,220	6.69%	319,959,400	7.28%
Total Appraised Value Before Exemptions	4,028,574,190	100.00%	4,397,060,920	100.00%
Less: Total Exemptions/Reductions	774,948,113		838,848,527	
Taxable Assessed Value	<u>\$ 3,253,626,077</u>		<u>\$ 3,558,212,393</u>	

Notes:

Valuations shown are certified taxable assessed values reported by the Dallas Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

VALUATION AND GENERAL OBLIGATION DEBT HISTORY
(UNAUDITED)

FISCAL YEAR	ESTIMATED POPULATION (1)	TAXABLE ASSESSED VALUATION	TAXABLE ASSESSED VALUATION PER CAPITA (2)	G.O. TAX DEBT OUTSTANDING AT END OF YEAR	RATIO OF G.O. TAX DEBT TO TAXABLE ASSESSED VALUATION (2)	G.O. TAX DEBT PER CAPITA (2)
2004	27,400	\$ 3,558,212,393	\$ 129,862	\$ 22,925,019 (3)	0.64%	\$ 837 (3)
2005	27,595	3,253,626,077	117,906	19,675,587 (4)	0.60%	713 (4)
2006	27,850	3,297,741,028	118,411	16,326,155 (4)	0.50%	586 (4)
2007	28,500	3,505,655,470	123,005	11,821,657 (5)	0.34%	415 (5)
2008	28,500	3,819,397,977	134,014	17,170,289 (5)	0.45%	602 (5)

Notes:

- (1) Based on North Central Texas Council of Governments original population estimates with the exception of current fiscal year, which is a projection.
- (2) As reported by the Dallas Central Appraisal District on the City's annual State Property Tax Report; subject to change during the ensuing year.
- (3) Includes Series 1999 Combination Tax and Hotel Occupancy Tax Certificates of Obligation.
- (4) Includes Series 1999 Combination Tax and Hotel Occupancy Tax Certificates of Obligation, Series 2004 Taxable Certificates, and Series 2004A Certificates.
- (5) Includes Series 1999 Combination Tax and Hotel Occupancy Tax Certificates of Obligation and Series 2004 Taxable Certificates.

TAX RATE, LEVY, AND COLLECTION HISTORY
 LAST FIVE FISCAL YEARS
 (UNAUDITED)

FISCAL YEAR	TAX RATE	GENERAL FUND	I & S FUND	TAX LEVY	% CURRENT COLLECTIONS	% TOTAL COLLECTIONS
2003	\$ 0.4400	\$ 0.3511	\$ 0.0889	\$ 16,655,270	97.23%	97.96%
2004	0.4600	0.3670	0.0930	16,367,777	96.18%	96.85%
2005	0.4945	0.3965	0.0980	16,089,181	99.71%	100.47%
2006	0.4945	0.3985	0.0960	16,307,329	100.63%	101.13%
2007	0.4945	0.4041	0.0904	17,335,466	99.83%	99.83%

TEN LARGEST TAXPAYERS
FISCAL YEAR 2008
(UNAUDITED)

TAXPAYER	NATURE OF PROPERTY	TAXABLE VALUE	PERCENTAGE OF TOTAL CERTIFIED TAXABLE VALUE
Dallas Semiconductor	Semiconductor Manufacturing	\$ 92,064,208	2.41%
AT&T/Southwestern Bell/Cingular	Telecommunications	80,510,700	2.11%
Occidental Tower Corporation	Chemical Production	76,389,490	2.00%
Providence Towers LP	Real Estate Developers	71,420,390	1.87%
TCI Park West I Inc.	Real Estate Investment Company	62,678,800	1.64%
Glazers Wholesale	Spirit and Wine Distribution	55,321,360	1.45%
Prentiss Properties	Real Estate Developers	38,613,780	1.01%
Daltex Centre LP	Real Estate Developers	36,979,720	0.97%
Tuesday Morning PS Ltd	Retail	34,785,794	0.91%
YPI Thanksgiving Tower/Meridian	Office Complex	32,247,180	0.84%
		<u>\$ 581,011,422</u>	<u>15.21%</u>

Source: Dallas County, "City Report of Property Value," City of Farmers Branch

TAX ADEQUACY
(UNAUDITED)

2008 Principal and Interest Requirements (1)	\$ 1,530,017
\$0.0405 Tax Rate at 99% Collection Produces	1,531,388
Average Annual Principal and Interest Requirements, 2008-2030 (1)	813,734
\$0.0216 Tax Rate at 99% Collection Produces	816,740

Note:

(1) Includes Combination Tax and Hotel Occupancy Tax Certificates of Obligation and Combination Tax and Revenue Certificates of Obligation.

CITY OF FARMERS BRANCH, TEXAS

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS
(UNAUDITED)

FISCAL YEAR	GENERAL OBLIGATION BONDS (1)			SPECIAL REVENUE BONDS (2)		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2008	\$ 415,000	\$ 46,158	\$ 461,158	\$ 510,000	\$ 558,859	\$ 1,068,859
2009	420,000	33,707	453,707	535,000	536,686	1,071,686
2010	195,000	21,108	216,108	560,000	512,534	1,072,534
2011	200,000	14,770	214,770	585,000	485,714	1,070,714
2012	210,000	7,770	217,770	615,000	456,316	1,071,316
2013-2017				2,115,000	1,843,322	3,958,322
2018-2022				1,650,000	1,368,430	3,018,430
2023-2027				2,200,000	813,080	3,013,080
2028-2030				1,660,000	147,434	1,807,434
	<u>\$ 1,440,000</u>	<u>\$ 123,513</u>	<u>\$ 1,563,513</u>	<u>\$ 10,430,000</u>	<u>\$ 6,722,375</u>	<u>\$ 17,152,375</u>

Notes:

(1) "General Obligation Bonds" do not include lease/purchase obligations.

(2) Combination Tax and Hotel Occupancy Tax Certificates of Obligation - average life of issue - 9.074 years. Combination Tax and Revenue Certificates of Obligation Series 2004 - average life of issue - 16.657 years.

TABLE CD-7

TOTAL DEBT SERVICE REQUIREMENTS		% OF PRINCIPAL RETIRED
\$	1,530,017	7.79%
	1,525,393	15.84%
	1,288,642	22.20%
	1,285,484	28.81%
	1,289,086	35.76%
	3,958,322	53.58%
	3,018,430	67.48%
	3,013,080	86.02%
	1,807,434	100.00%
\$	18,715,888	

INTEREST AND SINKING FUND BUDGET PROJECTION
(UNAUDITED)

Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/08	(1)		\$ 1,530,017
Interest and Sinking Fund, 9/30/07		\$ 229,766	
Interest and Sinking Fund Tax Levy @ 99% Collection		2,190,000	
Transfer for Hotel Occupancy Tax Debt Service		471,300	
Transfer for Tax and Revenue Debt Service		604,600	
Estimated Investment Income			3,495,666
Estimated Balance 9/30/08			<u>\$ 1,965,649</u>

Note:

(1) Includes Combination Tax and Hotel Occupancy Tax Certificates of Obligation and Combination Tax and Revenue Certificates of Obligation.

COMPUTATION OF SELF-SUPPORTING DEBT ⁽¹⁾
(UNAUDITED)

	(2)	
Hotel/Motel Occupancy Tax Revenues		\$ 2,487,792
Less: Requirements for Hotel Occupancy Tax Certificates of Obligation		466,273
Balance Available for Other Purposes		<u>\$ 2,021,519</u>

Notes:

(1) The City has determined that the Series 2004 Taxable Certificates will be self-supporting general obligation debt based upon amounts to be received under the terms of a Ground Lease Agreement (the "Lease") between the City and the lessee, the Dallas Stars L.P. (the "Dallas Stars"), which Lease relates to the community-style recreational ice-skating and conference facility being financed in part with the proceeds of the Series 2004 Taxable Certificates. The obligation of the Dallas Stars to make lease payments to the City to support the payment of the Series 2004 Taxable Certificates is dependent on the satisfaction of certain initial and ongoing requirements in the Lease, particularly including the Lease provision that a certificate of occupancy be issued for the ice skating facility prior to the commencement of the lease term. The City is of the view that such lease provisions are customary, but anticipates that a portion of the debt service for the Certificates during the construction of the facility will be funded from transfers from other available sources.

(2) The City's Series 1999 Certificates of Obligation are secured by a pledge of the ad valorem taxes and receipts from the 7% hotel occupancy tax collected by the City for the promotion of tourism in the City. Since the Series 1999 Certificates of Obligation were issued, the City has transferred hotel tax revenues to the debt service fund to pay debt service on the Series 1999 Certificates of Obligation and anticipates that it will continue to do so to pay the outstanding Series 1999 Certificates of Obligation.

HOTEL/MOTEL TAX REVENUE
LAST TEN FISCAL YEARS
(UNAUDITED)

<u>FISCAL YEAR</u>	<u>HOTEL/MOTEL TAX REVENUE</u>	<u>NUMBER OF ROOMS</u>
1998	\$ 2,140,128	1,945
1999	2,289,980	2,212
2000	2,803,435	2,207
2001	2,534,403	2,207
2002	2,026,831	2,172
2003	1,797,279	2,172
2004	1,786,530	2,173
2005	1,965,693	2,194
2006	2,249,499	2,196
2007	2,487,792	2,137

HOTEL OCCUPANCY TAXPAYERS
 SEPTEMBER 30, 2007
 (UNAUDITED)

HOTEL	NUMBER OF ROOMS	TAXES PAID	% OF TOTAL
Omni @ Park West	337	\$ 701,215	28.19%
Wyndham Dallas Galleria	310	403,440	16.21%
Doubletree Hotel Dallas	290	397,363	15.97%
Holiday Inn Select North Dallas	375	365,405	14.69%
Doubletree Club Hotel	160	246,846	9.92%
Fairfield Inn	107	134,837	5.42%
LaQuinta Inn	122	71,620	2.88%
America's Best Value Inn	103	40,576	1.63%
Studio Plus	86	33,023	1.33%
Econolodge Dallas Airport North	120	32,487	1.31%
Comfort Inn North Dallas	50	31,261	1.26%
Days Inn North Dallas	72	28,703	1.15%
Chateau DeVille Apartments	2	525	0.02%
Lakeview at Parkside	1	431	0.02%
Villas at Parkside	2	60	0.00%
	<u>2,137</u>	<u>\$ 2,487,792</u>	<u>100.00%</u>

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS
(UNAUDITED)

PURPOSE	DATE AUTHORIZED	AMOUNT AUTHORIZED	AMOUNT PREVIOUSLY ISSUED	UNISSUED BALANCE
Park Improvements	1985	\$ 6,925,000	\$ 2,500,000	\$ 4,425,000
Street Improvements	1985	20,060,000	10,340,000	9,720,000
Firefighting Equipment	1985	1,005,000	215,000	790,000
Recreation Center	1985	735,000		735,000
Police Facilities	1985	120,000	15,000	105,000
Municipal Service Center	1985	1,940,000		1,940,000
Drainage & Erosion	1985	9,270,000	7,945,000	1,325,000
Water System Improvements	1985	16,695,000	8,750,000	7,945,000
Transit Facility	1985	1,000,000		1,000,000
		<u>\$ 57,750,000</u>	<u>\$ 29,765,000</u>	<u>\$ 27,985,000</u>

GENERAL FUND REVENUE AND EXPENDITURE HISTORY
 FISCAL YEARS ENDED SEPTEMBER 30
 (UNAUDITED)

	FISCAL YEARS ENDED SEPTEMBER 30				
	2007	2006	2005	2004	2003
REVENUES					
Property, sales, and franchise taxes	\$ 31,308,791	\$ 30,494,007	\$ 28,236,045	\$ 27,455,482	\$ 27,545,022
Licenses and permits	847,741	901,032	702,623	679,716	535,374
Charges for services	4,796,883	4,553,630	4,689,222	4,381,900	3,943,948
Fines and forfeitures	2,616,722	2,520,119	2,681,631	2,809,120	2,495,920
Investment income	1,070,033	970,781	565,953	260,620	386,423
Miscellaneous	102,480	125,666	106,459	281,626	70,914
Total revenues	<u>40,742,650</u>	<u>39,565,235</u>	<u>36,981,933</u>	<u>35,868,464</u>	<u>34,977,601</u>
EXPENDITURES					
Current:					
General government	9,831,145	8,401,617	7,568,695	7,746,021	7,396,741
Public safety	16,801,893	15,777,257	16,029,225	15,678,103	14,255,541
Public works	7,166,136	6,736,532	6,685,000	6,552,672	7,154,373
Culture and recreation	9,470,901	9,376,904	9,025,479	8,296,717	8,208,649
Total expenditures	<u>43,270,075</u>	<u>40,292,310</u>	<u>39,308,399</u>	<u>38,273,513</u>	<u>37,015,304</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,527,425)</u>	<u>(727,075)</u>	<u>(2,326,466)</u>	<u>(2,405,049)</u>	<u>(2,037,703)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	2,637,317	2,612,451	2,332,842	2,332,632	2,301,900
Transfers out	(3,612,500)	(137,500)	(633,500)	(537,500)	(2,925,000)
Sale of capital assets/insurance recoveries	313,919	257,523	154,147	268,878	22,548
Total other financing uses	<u>(661,264)</u>	<u>2,732,474</u>	<u>1,853,489</u>	<u>2,064,010</u>	<u>(600,552)</u>
Net change in fund balance	(3,188,689)	2,005,399	(472,977)	(341,039)	(2,638,255)
Fund balances--beginning	<u>15,133,701</u>	<u>13,128,302</u>	<u>13,601,279</u>	<u>13,942,318</u>	<u>16,580,573</u>
Fund balances--ending	<u>\$ 11,945,012</u>	<u>\$ 15,133,701</u>	<u>\$ 13,128,302</u>	<u>\$ 13,601,279</u>	<u>\$ 13,942,318</u>

MUNICIPAL SALES TAX HISTORY
 LAST FIVE FISCAL YEARS
 (UNAUDITED)

FISCAL YEAR	TOTAL COLLECTED	% OF AD VALOREM TAX LEVY	EQUIVALENT OF AD VALOREM TAX RATE	PER CAPITA
2003	\$ 10,048,764	60.33%	\$ 0.2655	\$ 358.88
2004	10,277,538	62.79%	0.2888	375.09
2005	10,789,405	67.06%	0.3316	390.99
2006	11,240,717	68.93%	0.3409	403.62
2007	12,367,492	71.34%	0.3528	444.08

The sales tax breakdown for the City is as follows:

Dallas Area Rapid Transit	1.00¢
City Sales and Use Tax	1.00¢
State Sales and Use Tax	6.25¢
Total	<u>8.25¢</u>

CURRENT INVESTMENTS
 SEPTEMBER 30, 2007
 (UNAUDITED)

DESCRIPTION OF INVESTMENT	% OF PORTFOLIO	PURCHASE PRICE	MARKET VALUE
Treasury Notes	18.68%	\$ 9,191,555	\$ 9,300,467
Fannie Mae Notes	20.78%	10,223,405	10,291,115
Freddie Mac Notes	15.20%	7,480,388	7,486,926
Federal Home Loan Bank Notes	37.50%	18,449,727	18,555,745
Farmer Mac	4.65%	2,288,138	2,217,218
Repurchase Agreements	3.19%	1,568,599	1,568,599
	100.00%	\$ 49,201,812	\$ 49,420,070

HISTORICAL WATER AND WASTEWATER USAGE
 LAST FIVE FISCAL YEARS
 (UNAUDITED)

FISCAL YEAR	WATER USAGE AMOUNT IN GALLONS (000)			WASTE WATER CONSUMPTION AMOUNT IN GALLONS (000)
	TOTAL CONSUMPTION	PEAK DAY	AVERAGE DAY	TOTAL USAGE
2003	3,224,111	17,765	8,833	2,196,523
2004	2,867,538	13,556	7,856	1,991,700
2005	2,950,227	14,813	8,083	1,709,434
2006	3,523,898	17,573	9,655	1,225,346
2007	2,746,547	15,214	7,525	1,727,468

Note: Total Consumption represents total water purchased by the City.

TOP TEN WATER CONSUMERS
 SEPTEMBER 30, 2007
 (UNAUDITED)

CONSUMER	TYPE OF INDUSTRY	2006-07 CONSUMPTION (GALLONS)	% OF TOTAL CONSUMPTION	2006-07 REVENUES	% OF REVENUES
Dallas Semiconductor	Manufacturing	189,214,000	6.9%	\$ 627,306	7.5%
Lakeview at Parkside	Real Estate	44,026,000	1.6%	169,923	2.0%
Quebecor World	Printing	37,360,000	1.4%	123,854	1.5%
TCI Park West	Management Company	33,571,000	1.2%	94,416	1.1%
Ventana at Valwood	Real Estate	33,430,000	1.2%	113,713	1.4%
Cooks Creek Apartments	Real Estate	31,462,000	1.1%	111,631	1.3%
Omni Dallas Hotel	Hotel	24,436,000	0.9%	83,518	1.0%
Daltex	Real Estate Developers	21,917,000	0.8%	72,647	0.9%
Stanley Mechanics Tools	Manufacturing	20,227,000	0.7%	68,045	0.8%
Carrollton/FB ISD	Education	19,992,000	0.7%	70,122	0.8%

Source: City of Farmers Branch Finance Department

MONTHLY WATER AND SEWER RATES
 LAST TEN FISCAL YEARS
 (UNAUDITED)

FISCAL YEAR	WATER RATES				SEWER RATES							
	MONTHLY BASE 2,000 GALLONS	RATE PER 1,000 GALLONS			MONTHLY BASE 2,000 GALLONS	RATE PER 1,000						
						GALLONS						
		NEXT 8,000 GALLONS	NEXT 10,000 GALLONS	OVER 20,000 GALLONS		OVER						
						2,001 GALLONS (1)						
1998	\$	8.14	\$	2.40	\$	2.49	\$	2.58	\$	8.50	\$	1.15
1999	(2)											
2000		8.38		2.47		2.56		2.66		8.76		1.18
2001		8.38		2.47		2.56		2.66		8.76		1.18
2002		8.38		2.47		2.56		2.66		8.76		1.18
2003		8.38		2.47		2.56		2.66		8.76		1.18
2004		8.80		2.59		2.56		2.66		9.20		1.24
2005		9.20		2.71		2.81		2.92		9.61		1.30
2006		10.44		3.08		3.19		3.31		10.91		1.48
2007		10.44		2.83		3.19		3.31		10.91		1.48

Notes:

Rates are based on 3/4" and 5/8" meters, which are the standard household meter sizes. The city charges an additional rate for non-standard meter sizes.

(1) Private residents are not charged for sewer beyond 10,000 gallons.

(2) On April 1, 1999, the city implemented a rate increase for both water and sewer equal to the rates shown for fiscal year 2000. Prior to this date, the 1998 rates were the effective rates.

CONDENSED STATEMENT OF WATER AND SEWER SYSTEM OPERATIONS
FISCAL YEARS ENDED SEPTEMBER 30
(UNAUDITED)

	FISCAL YEARS ENDED SEPTEMBER 30				
	2007	2006	2005	2004	2003
REVENUES					
Charges for services	\$ 12,114,700	\$ 15,352,500	\$ 12,010,694	\$ 10,887,334	\$ 10,813,689
Investment income	614,641	411,189	169,269	93,944	208,977
Miscellaneous	1,911	8,043	7,311	1,431	2,408
Total revenues	12,731,252	15,771,732	12,187,274	10,982,709	11,025,074
EXPENDITURES					
Personal services	1,655,323	1,601,470	1,880,353	1,827,971	1,809,646
Materials and supplies	142,726	145,945	132,663	132,532	116,885
Maintenance and utilities	993,066	960,753	617,381	1,228,915	1,014,426
Purchase of water	4,215,899	4,356,520	3,769,111	3,553,117	3,651,392
Sewage treatment	2,205,728	1,787,319	2,028,647	2,117,145	2,235,130
Total expenditures	9,212,742	8,852,007	8,428,155	8,859,680	8,827,479
Net available for debt service	\$ 3,518,510	\$ 6,919,725	\$ 3,759,119	\$ 2,123,029	\$ 2,197,595
CUSTOMERS	9,472	9,490	9,444	9,442	9,467

Note: The above calculation of amounts available for payment of system debt service excludes non-cash expenses such as depreciation and amortization. Debt service payments are also excluded. Certain non-cash revenue sources, principally investment income, are included.